

INCOMING TELEGRAM *Department of State*

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REF:DEPTTEL 619

AFTER CONSULTATIONS GOI ECONOMIC OFFICIALS AND ANALYSIS THEIR CURRENT ECONOMIC PROGRAMMING ACTIVITIES, FOLLOWING ARE OUR VIEWS ON BASIC ECONOMIC POLICY QUESTIONS POSED REFTEL.

A. (BEGIN UNDERSCORE) IMPACT OF FIGHTING ON INDIAN ECONOMY. (END UNDERSCORE) SINCE WAR WAS SHORT (MOST ACTIVE PHASE ONLY 17 DAYS) AND LOCALIZED, DIRECT ECONOMIC IMPACT DOES NOT APPEAR TO HAVE BEEN VERY GREAT. AS REGARDS MILITARY LOSSES, TTK AND OTHERS HAVE MENTIONED PRELIMINARY ESTIMATES OF \$150 MILLION, COMPARED CURRENT

PAGE TWO RUSBAE 644A ~~SECRET~~
63-4'S DEFENSE BUDGET 879 CRORES (\$1.84 BILLION). ASHOKA MEHTA AND OTHERS HAVE CHARACTERIZED MUCH OF DESTROYED EQUIPMENT AS SUPERANNUATED, THUS DUE FOR REPLACEMENT ANYWAY. (IT IS NOT CLEAR WHETHER THE \$150 MILLION FIGURE INCLUDES USE OF MILITARY CONSUMABLES SUCH AS AMMO AND POL OR WHETHER IT REFERS ONLY TO EQUIPMENT LOSSES.)

IN ADDITION TO MILITARY LOSSES, THERE WAS CIVILIAN DAMAGE (WHICH HAS NOT YET BEEN SURVEYED BUT ESTIMATED BY ONE OFFICIAL SOURCE AT ABOUT \$150 MILLION), CONSIDERABLE DISRUPTION OF TRANSPORTATION IN BOTH FRONT AND HINTERLAND, DISLOCATION OF TEA, JUTE, AND WOOLEN TEXTILE INDUSTRIES, SOME INTERFERENCE WITH AGRICULTURAL PRODUCTION AND TRADING OPERATIONS IN FRONT AREAS, AND THE LIKE. DOUBTFUL IF COSTS SUCH DISLOCATIONS AND INTERFERENCE CAN EVER BE ACCURATELY CALCULATED, BUT SOME ASSESSMENT MAY BE GLEANED FROM TRADE, PRODUCTION, AND FISCAL STATISTICS NEXT FEW MONTHS.

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E.O. 13292, Sec. 3.4
State Dept. Guidelines
By *jc*, NARA, Date 3/30/01

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-2- 1002, October 15, from New Delhi (SECTION I OF III)

IN SUM, FROM INFORMATION NOW AVAILABLE, WE THINK DIRECT ECONOMIC IMPACT OF WAR WAS LIMITED AND BASIC PROBLEMS OF ECONOMY (RESOURCE SHORTAGE, FOREIGN EXCHANGE SHORTAGE, FOOD PROBLEMS) WERE NOT RPT NOT SERIOUSLY EXACERBATED BY HOSTILITIES.

REAL CAUSE FOR CONCERN IS THUS NOT RPT NOT ECONOMIC BURDEN OF REPAIRING IMMEDIATE DAMAGE BUT COST OF DELAY IN DEVELOPMENT OF BASIC GOI ECONOMIC POLICY IN MEDIUM AND LONGER-TERM FUTURE. THIS

PAGE THREE RUSBAE 644A ~~SECRET~~
WILL INEVITABLY BE AFFECTED BY WHAT GOI POLICY-MAKERS CONSIDER NEW SET OF CIRCUMSTANCES IN AFTERMATH PAK CONFRONTATION AND RENEWED CHINESE THREATS AND BY OUR POLICIES.

BUT PAK AND CHICOM THREAT NOT RPT NOT BY ANY MEANS SOLE FACTOR IN INDIAN VIEW CHANGED CIRCUMSTANCES. EQUALLY IMPORTANT, IF NOT MORE SO, IS INDIAN SENSE ISOLATION IN VIEW UNCERTAINTIES ABOUT SUPPORT--BOTH MORAL AND MATERIAL--FROM MOST IMPORTANT NON-COMMUNIST COUNTRIES.

WHILE WE LACK PRECISE INFORMATION ON GOI INTENTIONS REGARDING BASIC ECONOMIC POLICY (GOI PLANNERS INDEED OBVIOUSLY THEMSELVES STILL GROPING AND BIDDING FOR TIME), WE CAREFULLY FOLLOWING MOVES UNDERWAY AND PLANS FOR FUTURE TENDING TOWARD EMPHASIS ON DEFENSE INDUSTRIES, REDUCED DEPENDENCE ON FOREIGN SUPPLIES, AND ECONOMIC CONTROLS. WE FIND SOME OF THESE TENDENCIES UNDERSTANDABLE (DEFENSE EMPHASIS, CONTROLS) AND OTHERS EVEN DESIRABLE (CERTAIN ASPECTS OF PLANS FOR SELF-RELIANCE). BUT WE FEAR THAT IF UNCERTAINTIES ABOUT FOREIGN

ECONOMIC ASSISTANCE (AND HENCE TOTAL AVAILABLE RESOURCES) CONTINUE TOO LONG, INDIAN ECONOMIC EFFORT LIKELY BECOME DISTORTED BY EXCESSIVE

RESTRICTIONS ON NON-DEFENSE OUTLAYS, INCREASED REGIMENTATION AND INTENSIFIED AUTARCHIC PRACTICES, COUPLED WITH INCREASING SOVIET ECONOMIC INFLUENCE, AND THAT SUCH TENDENCIES, THE LONGER THEY GO UNCHECKED, WILL BE THE MORE DIFFICULT TO REVERSE.

PAGE FOUR RUSBAE 644A ~~SECRET~~
WE CAN EXPECT SOVIETS TRY TO EXPAND THEIR ROLE HERE AND TAKE ADVANTAGE OF ANY OPENINGS LEFT AS RESULT WESTERN SUSPENSION AID. WE

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-3- 1002, October 15, from New Delhi, (SECTION I OF III)

HAVE ALREADY SEEN THIS IN SOVIET CONTINUANCE MILITARY SHIPMENTS AND READINESS CONSIDER ADDITIONAL HELP IN THIS AREA. THERE ARE LIMITS TO WHAT RUSSIANS CAN DO, AS SUGGESTED BELOW, BUT IT CLEAR RUSSIANS PREPARED DO MORE ASSIST INDIA IN ITS DEFENSE AND DEVELOPMENT EFFORTS.

B. (BEGIN UNDERSCORE) PLAN REVISION. (END UNDERSCORE)
EVER SINCE NATIONAL DEVELOPMENT COUNCIL MEETING SEPT 5-6, IT HAS BEEN WIDELY ADVERTIZED HERE THAT FOURTH FIVE-YEAR PLAN BEING REVISED TO MAKE IT MORE "DEFENSE-ORIENTED", WHILE STILL RETAINING OVERALL OUTLAY TARGET OF RS. 21,500 CRORES. PUBLIC PRONOUNCEMENTS THIS SUBJECT HAVE STRESSED THAT REORIENTATION WILL NOT AFFECT PRIORITY POSITION OF AGRICULTURE; IN FACT MANY STATEMENTS EQUATE DEFENSE ORIENTATION WITH AGRICULTURAL PRIORITY.

THERE IS NO DOUBT THAT PLANNERS IN QUANDARY ABOUT FOURTH PLAN. BUT MAJOR FACT EMERGING FROM OUR INTERVIEWS PLANNING COMMISSIONS AND OTHER ECONOMIC OFFICIALS IS THAT THEY DETERMINED AVOID FUNDAMENTAL CHANGES TO EXTENT POSSIBLE. TO THIS END, DECISIONS ON FOURTH PLAN ARE BEING POSTPONED IN HOPE, AS ONE PLANNING OFFICIAL PUT IT, THAT INTERNATIONAL SITUATION WILL BECOME CLEARER IN THAT PERIOD. (WE BELIEVE THIS REFERENCE COVERS FACTOR OF ECONOMIC ASSISTANCE

PAGE FIVE RUSBAE 644A ~~SECRET~~
AS WELL AS PAK AND CHICOM THREATS.)

INTENSIVE WORK NOW GOING ON PERTAINS ENTIRELY TO (BEGIN UNDERSCORE) AD HOC (END UNDERSCORE) CURRENT ECONOMIC ADJUSTMENTS AND TO ANNUAL PLAN FOR 1966/67, FIRST YEAR OF FOURTH PLAN. THUS THERE IS IN EFFECT NO RPT NO FOURTH PLAN AT PRESENT, NOR WILL ONE BE FORMULATED UNTIL CURRENT UNCERTAINTIES, MAINLY ABOUT RESOURCE AVAILABILITY, ARE AT LEAST PARTLY DISPELLED.

1. (BEGIN UNDERSCORE) AD HOC ADJUSTMENTS. (END UNDERSCORE)
THESE ARE ACTIONS FOR BRACING THE ECONOMY AGAINST RESTRICTED AVAILABILITY TOTAL RESOURCES AND ESPECIALLY FOREIGN EXCHANGE DURING PERIOD AID REAPPRAISAL BY CONSORTIUM AND LONGER, IF THIS REAPPRAISAL ADVERSE TO INDIA. THEY INCLUDE SUCH THINGS AS: CONTROLS OVER ALLOCATIONS OF NON-FERROUS METALS, INFORMAL BUT NEVERTHELESS STRICT LIMITATIONS ON FOREIGN EXCHANGE ALLOCATIONS TO NON-PRIORITY INDUSTRIES; AND DECISION TO EXTEND GRAIN RATIONING NOV 1 TO CITIES OVER 100,000.

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-4- 1002, October 15, from New Delhi (SECTION I OF III)

THEY ALSO INCLUDE SERIES CONSULTATIONS BETWEEN GOI OFFICIALS (TTK, MEHTA) AND CHIEF MINISTERS VARIOUS STATES WHICH, ALTHOUGH BILLED AS SESSIONS DISCUSSING FOURTH PLAN REVISION, ARE IN REALITY MORE CONCERNED WITH POSSIBILITIES FOR RAPID ENHANCEMENT AVAILABLE RESOURCES THROUGH INCREASED TAXATION AND REDUCED EXPENDITURES AT STATE LEVEL. IN ADDITION, THERE ARE NOTEWORTHY CURRENT EFFORTS TO INTENSIFY PROGRAMS PREVIOUSLY UNDERWAY, SUCH AS AGRICULTURAL PRODUCTION DRIVE OUTLINED BY PRIMIN IN RECENT SPEECH (EMBTTEL 947) AND PROPOSALS FOR MAXIMIZING EXPORTS. BOWLES
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IN SHORT, AUTHORITIES ARE DOING WHAT MIGHT BE EXPECTED UNDER PRESENT PRESSURES AND UNCERTAINTIES, I.E., EXAMINING ALL POSSIBILITIES FOR EMERGENCY RESOURCE MOBILIZATION FOR WHAT MAY BE DIFFICULT DAYS AHEAD.

THERE IS IN PUBLIC PRONOUNCEMENTS ON SUBJECT HEAVY CONTENT MORALE-BUILDING PROPAGANDA, DESIGNED REASSURE NATION THAT INDIA CAN BECOME MORE "SELF-RELIANT" AND THEREBY RESIST ATTEMPTS BY DONOR NATIONS TO EXACT POLITICAL CONCESSIONS IN RETURN FOR AID. BUT POLITICAL EXAGGERATIONS ASIDE, WE BELIEVE THESE MEASURES ARE SERIOUSLY INTENDED AND, ESPECIALLY CONSIDERING PRESENT HIGH MORALE OF POPULATION, COULD BRING MEASURABLE SHORT-TERM BENEFITS.

HOWEVER, AS THEY ALL PERTAIN TO TAKING UP SLACK IN AN ECONOMY THAT HAS RELATIVELY LITTLE SLACK, THEIR CONTINUANCE BEYOND SHORT-TERM COULD LEAD TO

PAGE TWO RUSBAE 644B ~~SECRET~~
DEBILITATING AUSTERITY AND REGIMENTATION.

2. (BEGIN UNDERSCORE) 1966/67 ANNUAL PLAN.(END UNDERSCORE)
PUBLIC ANNOUNCEMENTS HAVE STATED 1966/67 PUBLIC SECTOR INVESTMENTS SCHEDULED AT RS.2,080 CRORES, SAID TO BE ABOUT 10 PERCENT REDUCTION FROM "ORIGINAL" PLAN FOR THAT YEAR AND ALSO LOWER THAN CURRENT YEAR'S PLANNED INVESTMENT (RS. 2,259 CRORES).

PRESS TREATMENT GIVES IMPRESSION THAT THIS "CUT" HAS BEEN MADE TO ACCOMMODATE HIGHER LEVEL DEFENSE EXPENDITURES, BUT ONE SENIOR PLANNING OFFICIAL EXPLAINED IT AS MORE RELATED TO DECISION, TAKEN SOME MONTHS AGO, TO ADOPT OVERALL FIVE-YEAR OUTLAY LEVEL OF RS. 21,500 CRORES INSTEAD OF 22,500 CRORES PREVIOUSLY CONSIDERED. MOREOVER, PLANNED 1966/67 LEVEL NOT REALLY LOWER THAN CURRENT YEAR

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-2- 1002, OCTOBER 15, FROM NEW DELHI (SECTION II OF III)

BECAUSE ABOUT RS. 250 CRORES OF CURRENT YEAR PLAN BUDGET REALLY MAINTENANCE OF THIRD PLAN PROJECTS WHICH TRANSFERRED TO OPERATING BUDGET UNDER FOURTH PLAN. PLANNERS TELL US DRASTIC CHANGES NOT POSSIBLE 1966/67, SINCE BULK OF PROJECTS THAT YEAR ARE CARRYOVERS FROM PREVIOUS YEAR.

WHAT IS INVOLVED IS CONTINUATION OF PRESENT AUSTERITY, WITH STRICT LIMITATION ON SOCIAL WELFARE PROGRAMS, NEW GOVERNMENT BUILDING CONSTRUCTION, HOSPITAL AND SCHOOL CONSTRUCTION, EDUCATIONAL PROGRAMS, ETC. POLITICIANS LIKE TO IMPLY THAT "SAVINGS" FROM SUCH AUSTERITY MEASURES ARE TO BE USED TO ENHANCE DEFENSE EFFORT, WHILE ECONOMIC OFFICIALS TELL US THEY ARE LARGELY REALISTIC ADJUSTMENT TO PRESENT AND PROSPECTIVE RESOURCE AVAILABILITIES. TRUTH PROBABLY LIES SOMEWHERE BETWEEN.

C. (BEGIN UNDERSCORE) RESOURCE ALLOCATION BETWEEN DEFENSE AND DEVELOPMENT. (END UNDERSCORE) ONE THING IS CLEAR: GOI IS DETERMINED

MAINTAIN AS CREDIBLE DEFENSIVE POSTURE AS IT CAN, WITH OR WITHOUT FREE WORLD MILITARY OR ECONOMIC ASSISTANCE.

THIS DOES NOT NECESSARILY MEAN THAT PREVIOUSLY PLANNED LEVEL OF DEFENSE EXPENDITURES ARE DUE FOR DRASTIC OR EARLY INCREASE. MEHTA AND OTHERS HAVE TOLD US THERE IS NO PRESENT INTENTION OF INCREASING RS. 5,000 CRORE LEVEL OF DEFENSE EXPENDITURE PLANNED FOR THE FOURTH PLAN, POINTING OUT THAT THIS ALREADY REPRESENTS CONSIDERABLE INCREASE OVER CURRENT LEVELS WHICH, IN TURN, REFLECT SHARP INCREASE REGISTERED AFTER CHINESE INVASION OF 1962.

WHAT IT VERY LIKELY DOES MEAN IS THAT DEFENSE AND DEFENSE-RELATED EXPENDITURES WILL BE ACCORDED HIGHER PRIORITY THAN CIVILIAN-ORIENTED DEVELOPMENT EXPENDITURES SO THAT, IF OVERALL ANTICIPATED RESOURCE LEVEL IS REDUCED--AS, FOR INSTANCE, BY A DROP IN MILITARY AND ECONOMIC AID - CIVILIAN EXPENDITURES LIKELY BEAR BRUNT OF CUTBACK.

THIS IS NOT TO SAY PRESENT PLANS FOR FIVE-YEAR DEFENSE EXPENDITURES

PAGE FOUR RUSBAE 644B ~~SECRET~~
WOULD NECESSARILY BE MET UNDER ANY CIRCUMSTANCES. DOMESTIC DEFENSE PRODUCTION WILL FACE STRICT LIMITATIONS IMPOSED BY SCARCITIES AND QUALITATIVE DEFICIENCIES IN MATERIALS AND BY SHORTAGES SKILLED MANPOWER. REDUCED AID LEVELS WOULD FURTHER RESTRICT FOREIGN EXCHANGE AVAILABILITIES FOR PURCHASE ABROAD OF SOPHISTICATED TYPE OF WEAPONRY WHICH INDIANS CONSIDER REQUIRED TO COUNTER CHICOM THREAT.

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-3- 1002, OCTOBER 15, FROM NEW DELHI (SECTION II OF III)

EVEN BEFORE EMERGENCY, INDIA HAD BEGUN TO TURN TO USSR FOR SUCH PURCHASES AND THIS ACTIVITY RECENTLY GREATLY STEPPED UP, WITH LIKELIHOOD INCREASED SOV SUPPLY. HOWEVER, EVEN IF SOVBLOC-INDIAN CLEARING ARRANGEMENTS COULD BEAR SUCH AN INCREASE, IT DOUBTFUL THIS SOURCE COULD FILL REQUIREMENTS SUGGESTED BY PRE-EMERGENCY INDIAN DEFENSE PLAN. SOVBLOC AGREEMENTS FOR MILITARY SUPPLY TO INDIA IN 4-YEAR PERIOD NOV 1960 TO SEPT 1964 TOTALLED \$350 MILLION. THIS COMPARES WITH ANNUAL CEILING \$286 MILLION ON ALL FOREIGN EXCHANGE PURCHASES ON MILITARY ACCOUNT NEGOTIATED WITH INDIANS IN 1964

MCNAMARA-CHAVAN AGREEMENT.

WHATEVER OUTCOME CURRENT WESTERN REAPPRAISAL AID POLICY, INDIA DETERMINED MAKE STRENUOUS EFFORT TOWARD GREATER SELF-RELIANCE DEFENSIVE CAPABILITIES. MEHTA, IN STRESSING THIS, POINTS OUT THIS IS BIG DIFFERENCE FROM REACTION TO 1962 EXPERIENCE, WHEN IMPULSE HAD BEEN TO GET HELP FROM US AND UK.

PAGE FIVE RUSBAE 644B S E ~~C R E T~~

ONE PRACTICAL RESULT IS CHANGE FROM FORMER CONCEPT INSULATION DEFENSE-PRODUCTION FACILITIES FROM REST OF ECONOMY TO CURRENT PLAN FOR THOROUGH INTEGRATION, WITH MUCH CLOSER COORDINATION DEFENSE AND DEVELOPMENT PLANNING. ECONOMIC PLANNING CAPACITY OF DEFENSE MINISTRY BEING STRENGTHENED WITH APPOINTMENT ADDITIONAL SECRETARY AND SOME SUPPORTING STAFF, AND PLANNING COMMISSION OFFICIALS STATE THAT HENCEFORTH CAPITAL AND MATERIAL REQUIREMENTS DEFENSE FACTORIES WILL BE TAKEN MORE DIRECTLY INTO ACCOUNT IN PROGRAMMING FOREIGN EXCHANGE AND ALLOCATING PRODUCTION BASIC INDIAN INDUSTRIES.

AS DESCRIBED TO US BY GOI OFFICIALS RECENTLY, INTEGRATION OF DEFENSE PRODUCTION INTO REST OF ECONOMY WILL BE EXPRESSED IN THREE MAIN WAYS: 1) SHOPPING HARD TO OBTAIN MORE NEEDED COMPONENTS AND ITEMS FROM DOMESTIC ECONOMY; 2) USING AND, AS NECESSARY, PREEMPTING EXISTING OR ALREADY PLANNED CAPACITY (AS IN FORGING AND FOUNDRY INDUSTRIES) FOR DEFENSE PRODUCTION; AND 3) INCREASE OF CERTAIN KINDS OF CAPACITY TO PERMIT FASTER IMPORT SUBSTITUTION FOR DEFENSE REQUIREMENTS, MARKED BY DRIVE FOR COMPLETE SELF-SUFFICIENCY IN ELECTRONICS AND AIRCRAFT PRODUCTION. BOWLES

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USIA OFFICIALS HAVE POINTED OUT TO US THAT MATERIALS AND COMPONENTS REQUIREMENTS OF MILITARY ARE STILL QUITE SMALL COMPARED TO CAPACITIES

NSC ALREADY EXISTING OR PROJECTED FOR CIVILIAN PURPOSES, AND HAVE
INR STRESSED DEGREE TO WHICH MILITARY REQUIREMENTS COULD BE FULFILLED
CIA BY USING CAPACITY MORE FULLY OR BY DISPLACING CIVILIAN PRODUCTION
NSA ONLY INTERMITTENTLY. SUCH RATIONALIZATION CERTAINLY POSSIBLE,
DOD BUT DOUBTFUL IF DRIVE FOR MORE SELF-RELIANCE PRODUCTION CAN BE
IGA ACCOMPLISHED FAST ENOUGH SATISFY INDIAN SECURITY REQUIREMENTS WITHOUT

AID CREATING STRAINS AND SHORTAGES IN CIVILIAN ECONOMY.

E D. (BEGIN UNDERSCORE) INDIAN ECONOMIC POLICY IMPROVEMENTS. (END
RSR UNDERSCORE) AS DEPT AWARE, BEFORE AUGUST/SEPT EMERGENCY, GOI
ECONOMIC POLICY MAKERS WERE MOVING IN SOME PROMISING DIRECTIONS AS
REGARDS ADOPTION OF POLICIES FOR MORE EFFICIENT USE OF OWN
RESOURCES AND FOREIGN ASSISTANCE. SHOCK OF WAR EMERGENCY AND
UNCERTAINTIES REGARDING FUTURE AID HAVE STRENGTHENED INDIAN RESOLVE
TO MAXIMIZE AGRICULTURAL PRODUCTION, BUT IN EVERY OTHER RESPECT
THERE HAS BEEN UNDERSTANDABLE FREEZING AND RETROGRESSION: OWING
FOREIGN EXCHANGE SHORTAGE, FERTILIZER IMPORTS ARE BEING CUT, THEREBY
RESTRICTING SCOPE FOR IMPROVED AGRICULTURAL PERFORMANCE; IMPORT
LIBERALIZATION HAS BEEN SHELVED FOR AT LEAST DURATION OF WESTERN
AID POLICY REAPPRAISAL; INTERNAL ECONOMIC CONTROLS HAVE BEEN
TIGHTENED RATHER THAN LOOSENED; AND GRAIN DISTRIBUTION IS
SADDLED WITH MORE RATHER THAN LESS ADMINISTRATIVE DIRECTION.

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-2- 1002 October 15 (Section 3 of 3) from New Delhi

THESE ARE WORRISOME DEVELOPMENTS, BUT WE CANNOT ASCRIBE CURRENT RESURGENCE OF CONTROL PSYCHOLOGY TO A BASIC SHIFT IN INDIAN ECONOMIC PHILOSOPHY. POLICY DEPARTURES WE PREVIOUSLY SAW IN OFFING WERE DEPENDENT UPON ANTICIPATED LEVELS OF WESTERN AID. WE COULD NOT HAVE EXPECTED THEM TO BE PURSUED ACTIVELY DURING PERIOD OF NATIONAL EMERGENCY AND SUSPENSION AID.

WHILE GOI IS AT PRESENT HIGHLY SENSITIVE TO SUSPECTED POLITICAL PRESSURES IN WESTERN AID POLICY, WE BELIEVE IT WOULD STILL BE POSSIBLE RESUME USEFUL DIALOGUE ON ECONOMIC POLICY OF SORT WHICH WAS UNDERWAY BEFORE EMERGENCY. IF OUR DECISIONS ON AID ARE TOO LONG DELAYED, THERE IS DANGER STIFFENING ATTITUDES, WITH OUR ECONOMIC NEGOTIATING POSITIONS BEING CONFUSED WITH POLITICAL PRESSURE AND CONSTRUCTIVE ACTION BEING MORE DIFFICULT ACHIEVE.

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SUBJECT: Aid to India and Pakistan

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NEA

1. Visiting German and U.K. officials discussed this subject

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29 September with Gaud and Macomber. In order GOC have same information

USIA

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Macomber met with Stone and Shenstone GOC Embassy October 1.

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2. Macomber outlined US position as follows: (a) Our inability to

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pledge new aid pending Congressional action applied worldwide with two

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minor exceptions and still in effect. (b) We concerned with tendency of

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some recipients--especially Pakistan but also India--to take our aid for

granted and fail to understand or respect US position in matters important

to us. (c) Re current US aid to India and Pakistan: Military shipments

suspended, economic aid pipeline moving, new economic aid commitments

banned, food shipments proceeding on short-term basis. (d) No decisions

made regarding resumption of full aid. (e) Four questions cloud future of

such aid: Has fighting in fact stopped? Is further aid a good investment

without progress toward settlement and more stability? How much diversion

of resources to military uses planned, how much tolerable to donors? Is not

economic reassessment necessary, as implied by IBRD in statement postponing Pak Consortium?

Approved for transmission to LIMITEL Post *Rees*

Drafted by: *per C... Rees*
WEMacomber:en:AID:AA/NESA

Telegraphic transmission and classification approved by: *Rees*
AID:AA/NESA:W.B.Macomber, Jr.

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By *jc*, NARA, Date *3-30-01*

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At meeting October 1 with Under Secretary Mann, Bhoothalingam said he understood QTE pause UNQTE in making good on pledge, but continued stoppage on new aid following ceasefire has come as shock. He emphasized need for very early non-project aid, including fertilizer. Said recent fighting had stimulated feeling of national unity and confidence in India which in midst very hopeful venture in economic development. Bhoothalingam wondered what would be result of irritation and frustration if Indian people felt let down by friends on whom they had counted. Said India's basic problem remains China and Indian defense needs must be considered that context.

Mann referred to strong feeling in US that economic development incompatible with war. Said we have real problem in seeing that economic aid is not wasted in fighting. Referred to our own balance payments problems and strong concern Congressional/~~XXXXXXXX~~ over efficacy foreign aid programs. In concern over current appropriation bill, he noted Secretary had told Congress that Administration would consult with it before making new loans to India or Pakistan. Mann expressed hope we could soon find some way to get back to normal relationship on aid. Said our problem would be greatly eased if there were prospect

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By jc, NARA, Date 3-29-04

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of political solution satisfactory both India and Pakistan.

In response query how soon and under what conditions new loans would be resumed, Mann expressed hope we could see somewhat more clearly ahead in short time. Stated aid could only be effective in an otherwise favorable situation and emphasized we not intending put pressure on GOI. Said we need some more time and look forward to more talks with Indians on this issue.

Throughout conversation, Bhoothalingam and Ambassador B.K. Nehru (who also present) defended India's position vis-a-vis Pakistan re commencement of fighting and emphasized virtual insolubility political problem under existing conditions. They offered no positive response on hope expressed by Under Secretary that some progress toward political settlement might be in cards.

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REPEAT INFO:

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RAWALPINDI PRIORITY 118

SUBJECT — Gaud-Bhoothalingam Meeting.

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OTHER AGENCY

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1. Acting Administrator Gaud met with Secretary Finance

Bhoothalingam 30 Sept. Gaud advised that existing ban on new economic aid loans for India and Pakistan would not rpt not automatically be lifted upon passage aid bill. Grounds to proceed with Congressional consultation which promised before resumption not at hand today.

2. Bhoothalingam indicated this action severe and out of propor-

tion to events or situation. Thereafter he requested consideration interim or partial action or assurance on non-project loan along lines reported TOAID 421. He stressed that sudden stoppage created problems compounding bad effects.

3. Acting Administrator acknowledged difficulties but indicated

that in this case overall policy considerations were controlling. He referred to existence many uncertainties regarding future hostilities, settlement, and possible need for economic reappraisal which mentioned by IBRD in press statement at time postponement Pakistan Consortium.

PAGE 1 OF 2 PAGES

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WMA
William B. Macomber, Jr., AA/NESA

AID AND OTHER CLEARANCES

WSGaud *in draft WMA*

D. Sneider SOA informed

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4. Gaud asked Bhoothalingam for memorandum describing short-term economic problem and effect of current ban so that we fully understand and be prepared as and when. Bhoothalingam promised provide, noting that memorandum stressing dire conditions is double-edged sword in hands which wish to punish.

5. Bhoothalingam noted he has appointment 3:00 p.m. 1 Oct. with Undersecretary Mann for discussion this subject.

BALL

Approved for transmission to
LIMTEL post.

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T E N T A T I V E

AGENDA FOR VISIT OF INDIAN FOOD AND AGRICULTURE MINISTER,
C. SUBRAMANIAM, TO WASHINGTON, December 20-22

MONDAY, December 20

- 9:30-12:30 Discussion of Indian food crisis and steps to meet it
(Conference Room 509A)
- 12:30-2:00 Lunch
- 2:00-5:00 Discussion of India's longer-term agricultural develop-
ment plans (Conference Room 509A)
- 6:30 Dinner for Minister C. Subramaniam with key Congressional
leaders at International Club, 1225 19th Street

TUESDAY, December 21

- 9:00-12:00 Meeting Minister Subramaniam with Secretary Freeman in
Secretary's Office
- 12:30-2:00 Lunch: Minister Subramaniam with Secretary Freeman
- Afternoon Meeting Minister Subramaniam with President at White
House
- 7:00 Dinner for Minister Subramaniam by Secretary Freeman,
Diplomatic Functions Room, State Department

WEDNESDAY, December 22

- 9:00-11:00 *9-10 - Cooper*
Murphy Unscheduled
- 11:00-12:30 Discussion with George Woods, Director, IBRD
- 1:00-2:30 Lunch: Minister Subramaniam with Press Group
- 3:00-3:30 Meeting Minister Subramaniam with Secretary of State Rusk.
- 8:00 Dinner for Minister Subramaniam by Ambassador Nehru at
Indian Embassy

THURSDAY, December 23

- 9:30-12:00 Meetings with representatives of the fertilizer industry
- 12:30 Lunch: Minister Subramaniam with fertilizer representatives

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CURRENT
FOOD
SITUATION

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AGENDA FOR DISCUSSIONS ON THE INDIAN FOOD CRISIS

I. The current situation

- A. Latest estimates of food grain production and domestic stock position available for 1966.
- B. Discussion of various methods for curtailing per capita food consumption to the maximum extent possible and the likely effects of these actions.
- C. Estimates of the minimum food grain import needs during 1966.

II. Food grain logistics

- A. Steps now being taken to maximize food grain arrivals in India in the immediate future.
- B. India's capacity to handle grain imports.
 1. Assessment of present port capacity.
 2. Measures to be implemented that will expand existing port capacity.
 3. Use of new methods and new ports for importing food grains.
 4. Potential use of rail and possibly air facilities for food grain imports.

III. Food grain distribution logistics

- A. Determination of regional distribution patterns.
- B. Specification of the types of food grains that can be used in different regions.
- C. Plans for expanding internal distribution facilities with emphasis on getting food down to the village level.
- D. Assessment of internal transport capacity.
 1. Current rail capacity and increases that can be obtained from reordering rail priorities.
 2. Maximum transport capacity that can be obtained from mobilizing truck transport.

THE MOBILIZATION OF INDIAN RESOURCES

TO MEET THE PENDING FOOD CRISIS

It will require the mobilization of all available Indian resources to overcome the pending food crisis. The GOI must quickly be in a position to use its own food production effectively and efficiently, and to devote the resources necessary to utilize food that might be forthcoming from other nations. This note spells out several important elements of resource mobilization on which a good assessment of performance levels by the GOI required. This assessment will provide a basis for determining the type and amount of additional assistance it will have to be provided to get the job done.

The policy and resource commitments of the GOI fall into three categories. First, every effort will have to be made to use domestic food supplies to the maximum advantage during the critical period of food shortages. Second, an all-out commitment of resources will have to be made to maximize the quantity of food that can be moved into the country from external sources. Third, a maximum effort will have to be made to move imported foods from ports of entry to areas of greatest need, and to distribute this food quickly and efficiently as possible.

Maximum Utilization of Domestic Food Supplies

The present food shortage situation is aggravated to the extent that existing and expected domestic food production is not equitably distributed. The present food crisis is a critical national problem for India and the burden of overcoming it must be shared by all. This means the following:

- (1) Centre government must have an accurate appraisal of food production and availabilities on an area basis. This will require in some cases information at the district level.
 - (a) What is the latest estimate of crop production for 1965-66?
 - (b) What is the estimate of food grain stocks held by Centre government, State governments, and the private trade that have been carried over from last year's crop?
 - (c) How much of these stocks will be available for redistribution by government or through the market?

- (2) Centre government must keep an up-to-date account of food availability and food needs for all of India. Steps should be taken to program available food throughout the year showing both amounts and patterns of planned distribution.
- (3) Centre government must have the authority to acquire food supplies in areas of relative abundance and distribute these supplies to areas with the most critical needs. If it has not already been done, this authority with respect to the individual States and private suppliers should be set out in detail.
 - (a) Do the Defense of India Rules provide sufficient authority for Centre government to overcome the zonal restrictions to grain movements? If not, what additional authority is required?
 - (b) Does sufficient authority exist to provide remunerative incentives to the private grain trade to gain their full cooperation?
 - (c) Does Centre government have the authority to make monopoly State procurement a subsidiary of Centre operations?
- (4) Centre government must have the machinery to effect the desired redistribution of domestic food supplies. This machinery includes not only authority, but command over the necessary procurement and distribution facilities. Full utilization must be made of every resource available which includes that of Centre government, the Food Corporation of India, State governments, and the private grain trade. The State governments have considerable resources for purchasing and handling food grains. Also, the private grain trade has much to contribute to both purchase and distribution operations. An early assessment of the grain procuring and handling capacity of these resources is in order. Appropriate authority and incentives will have to be provided to marshal the fullest cooperation of all those involved. Steps should be taken early to assure that the needed cooperation will be forthcoming.

- (a) Can the GOI achieve control over State grain procurement and handling facilities?
- (b) Is the GOI prepared to enlist the resources of the private grain trade through incentives rather than by compulsory measures? If the zonal restrictions cannot be removed, is the GOI prepared to allow the private trade to operate freely within each zone?

Maximizing Food Arrivals From External Sources

The GOI must be in a position to handle any and all commitments of food assistance from external sources. The import needs for the coming year will greatly exceed the highest levels previously attained.

There must be a total commitment by the GOI to provide the necessary quantity and quality of resources necessary to achieve maximum rate of food imports possible. To do this the following will be required.

- (1) That virtually all existing port capacity be available if required to handle future levels of grain imports. A detailed assessment for each port should be made of:
 - (a) Its current grain unloading capacity,
 - (b) Current method of grain unloading, and
 - (c) Current methods of moving grain out of the ports for internal distribution.
- (2) It is important that maximum levels of grain imports be achieved over as long a time span as possible. Grain import levels should be pushed to capacity levels in the near term.
 - (a) What steps have been taken to speed up imports?
 - (b) Have requests been made to divert to Indian ports grain enroute to other markets?
 - (c) What is the assessment of grain availabilities on a global basis?

- (3) Every effort possible must be made to increase the efficiency of port facilities. Maximum use should be made of automatic loading equipment and steps taken to improve labor productivity in the ports. A detailed assessment for each port should be made of:
- (a) Current equipment available for expanding operations.
 - (b) Additional equipment that will be required and effectively utilized.
 - (c) Changes in port logistics and labor practices that would improve port capacities.
 - (d) Use of costlier, but more productive means of grain handling. Are foreign exchange allocations available to achieve needed improvements in port capacity?
- (4) Every effort must be made to find new ways by which grain imports can enter the country. Extensive use should be made of lighters and small coastal vessels to move grain through the many smaller ports of India. The following information is required quickly:
- (a) Which ports are suitable to handle small vessels and which have facilities available for internal grain distribution?
 - (b) What is the grain handling capacity of these ports?
 - (c) What measures can be implemented to expand this capacity?
 - (d) What is the current availability of smaller vessels for use in these ports?
 - (e) What quantity of vessels in excess of those available can be effectively accommodated?
- (5) Attention should be given to other means for importing grain into the country which should include possibilities of rail and air movement. An assessment is needed of the following:
- (a) How much grain can be moved into India by rail and air in addition to that being moved by traditional means?
 - (b) To what extent can these capacities be increased? What are the logistical problems involved and what resources will be required to overcome these problems?

- (6) Provision should be made to monitor on a day-to-day basis grain unloading performance in Indian ports and advance preparation should be made to immediately bolster any sagging of performance wherever it occurs. Contingency plans should be prepared and some personnel and equipment should be kept in reserve to combat short-falls in performance.

Internal Distribution of Food

The total of all the efforts to overcome the near term food crisis in India are designed to achieving a satisfactory distribution of food supplies within the country. To this end, special emphasis will have to be placed on the procedures and mechanisms for distributing imported foods and domestic production.

To achieve the most effective distribution possible, the following will have to be considered:

- (1) The extent to which rationing can be effectively imposed and the reduction in food needs achieved by this program.
- (2) The maximum amount of food grain price increase that can be tolerated.
- (3) The extent to which per capita food grain consumption levels can be tolerably reduced through all belt-tightening measures.
- (4) Current information on the geographic distribution of internal food availabilities and imports will be required. If not now available, such intelligence will have to be provided.
- (5) Food import needs by area should be specified in terms of both quantity and the types of food that can satisfactorily be used. It is important from a logistical standpoint to have a maximum degree of flexibility in the types of food that can be provided. For example, efforts should be made to provide sorghum grains to those areas that traditionally produce and consume this type of grain.

- (6) Good information will be needed on the availability of domestic production for procurement and redistribution.
- (7) Every effort must be made to mobilize all possible authority and machinery for distributing food supplies throughout the country. The machinery should include that of the Centre government, the Food Corporation, the State governments, and the private trade. The maximum grain handling capacity of these resources will have to be estimated and ways to enlist their support devised. Plans should be drawn up to supplement these resources if necessary. Thought should be given to using military facilities and know-how for achieving this end just as, for example, the United States uses the National Guard in times of emergency and disaster.
- (8) Particular attention will have to be paid to short-term grain price movements on a regional and area basis. Good information on price will provide a very useful indicator of the relative degree of scarcity or abundance of food in different parts of the country. Steps should be taken to insure that this price information is collected, assembled, and used in a timely manner.
- (9) The capacity of both handling and movement of foods by rail, truck, and other means should be assessed quickly and accurately. Rail priorities should be reordered. An assessment should be made of the availability of trucking capacity and the best use that can be made of trucks.
- (10) Finally, tight control of the internal retail distribution system will have to be maintained. Steps should be initiated quickly to ascertain the adequacy of current distribution facilities, what can be done to reduce the rate of "leakage" through these facilities, and what new facilities will have to be brought into being to effect the desired levels and patterns of distribution.

Martin E. Abel
12/17/65

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LONG TERM
AGRICULTURAL
PLANS

The following focal points for discussion are generally listed in order of priority:

I. Fertilizer

- Concentrated effort on fertilizer as key input
- Consumption targets
- Role of domestic production, inputs and marketing effort in realizing targets
- Role of privately controlled plants and marketing systems in realizing targets
- Need for balanced fertilizer program
- Need for more research

II. Private Foreign Investment in Agricultural Related Industries

- Present crisis in investor's attitude toward India
- Need to create new climate
 - policy on majority ownership
 - simplification and speeding of approvals
 - assurance regarding stability of arrangements
 - assurance regarding needed monetary physical resources
 - prices and marketing controls
- Specific targets in fertilizer investment

III. Seed

- Targets
- Production and price
- Government farms and potential private foreign investment
- Need for more research
- Increased imports

IV. Credit

- Expansion of volume
- Diversification of sources
- Credit for non-owner farm operators
- Need for tailoring credit for different investments (short to medium term).

V. Agricultural Priority in Industrial Investment

- Consideration should be given to the adequacy of investment allocations for production of agricultural requisites including cement, steel shapes, plastics, pumps, pipe, pesticides, fungicides and agricultural equipment

VI. A National Food Policy

- Incentive pricing for producers
- Effectiveness of the Food Corporation
- Zonal and State barriers
- Buffer stocks and maximum prices

VII. Water Management

- Irrigation for sustained high yields
- Inadequacy of research

VIII. Farm-to-Market Roads

- Consideration of reallocation of resources to provide more all-weather access roads

ACTION REQUIRED TO ACCELERATE THE GROWTH OF AGRICULTURAL OUTPUT IN INDIA

Another paper has outlined the magnitude and the shape of India's immediate emergency food problem. There is no doubt that unusually adverse rainfall conditions in the current year have created an emergency situation which threatens to become catastrophic. There is also no doubt, however, that the rate of growth of agricultural output in India has lagged seriously behind the requirements of sustained economic progress in India. At the same time, a potential in terms of the physical resources and the technology which could be developed and adopted would permit a substantially accelerated growth of output. Food shortages in India are not due to a lack of potential but to the inability to realize the existing potential as rapidly as current and prospective population growth rates require.

It is important to note also that although inevitably and properly attention is today focused on the existing and prospective deficiencies in food production, agriculture's present and future role in the Indian economy is by no means limited to the production of food. Agriculture is now and could in the future be a supplier of materials to a significant part of India's manufacturing industry and is and could increasingly be the producer of a major part of India's exports.

Although the significance and the appropriate treatment of agriculture has been the subject of divergent views in India in recent years, there is evidently little disagreement today that agriculture deserves and requires first priority in India's development effort.

"First priority" has been assigned to agriculture in the past but this ascription has not been accompanied by careful definition of what such priority really means within the context of the total development program or what it implied with respect to action. This statement summarizes briefly some of the actions required.

The record of the period 1950/51 through 1963/64 indicates that the compound rate of growth of output of the 28 crops occupying the major part of India's cultivated land was 3.1 percent per year; for the food-grains it was 3.0 percent. The data also suggest that the rate of growth has been declining and in the more recent two-thirds of the period has been only $2\frac{1}{2}$ percent per year. ~~The data further indicates that~~ extension of the physical area under cultivation has been the major single factor contributing to a growth of output and that the apparent decline in the rate of growth is associated with the decline in the rate of extension of this area. It seems clear that increases in input in the future must come principally from increase in yield per unit of land area. Although the increasing use of labor has in the past produced some modest increases in land productivity, this clearly cannot/ ^{be} counted on to provide the 4 or 5 percent growth of agricultural output required to feed India's people and make the necessary contribution to India's industrial and export requirements.

There is little disagreement that the major requirements for acceleration and growth of agricultural output are:

1. strong price incentives to producers to stimulate the use of purchased inputs

2. ample supplies of the required physical inputs including water, fertilizer, plant protection materials, improved seed varieties, tools and implements and some tractor power equipment;
3. adequate farm credit;
4. improved and enlarged research;
5. improved and enlarged extension work.

Other slightly less critical but nevertheless important requirements include improved rural transport facilities, which will provide all-weather connection of villages with rail and road networks. To be effective this increased availability of inputs must be accompanied by a considerably improved Center and State Government administration of agricultural affairs.

Each of the elements listed above imply a whole set of actions and pose a whole set of problems. The most important of these are listed below:

Price Incentives

Despite the inhibiting influences of tradition, caste and non-economic motivations, the evidence is strong that most Indian farm producers respond positively to price incentives. It is clear that favorable relations between input and product prices have strong positive effects on the use of the inputs required for achievement of higher productivity and higher output. For a period of some years up to March 1963 the terms of trade between agriculture and the rest of the economy were increasingly adverse to agriculture. Over the past ^{two} years or so,

however, agricultural product prices have risen much more rapidly than other prices in the economy. Product prices are probably now at a level in relation to prices of both agricultural inputs and of consumer items purchased by farmers to stimulate a much greater use of purchased inputs as well as family labor. It is critically important that agricultural product prices remain favorable relative to the cost of purchased inputs. So far as general economic policy is concerned, this requires on part of the Government a directed effort to prevent non-agricultural prices from catching up with agricultural commodity prices and cancelling out the change which has occurred in the past several years. More particularly, it requires the operation by the Government of a price support and buffer stock program.

*What does
Food Corp.
Come in*

Minimum prices at which the Government will purchase at any time, must be set in advance of each growth season. These obviously must be set at level which will induce farmers to invest on increasingly large scale in the necessary inputs. The support prices must be made effective by the establishment of an apparatus sufficiently large and widespread that it could in fact implement the Government pledge, that it stands ready at all times to purchase from producers or others any quantities offered at the support prices. This apparatus must have personnel, funds, storage facilities.

Correspondingly, in order to prevent undue upward price movements, buffer stocks must be accumulated. The evidence suggests that only the existence of buffer stocks of adequate size and an administrative apparatus equipped to utilize these stocks for the purpose could

effectively prevent or moderate unduly high temporary upward price movements. It also suggests that the effort to prevent such price movements by administrative regulation would be ineffectual and would represent a waste of personnel and energies. Obviously, the operation of a buffer stock program requires the control of storage facilities which are adequate in quantity and properly located. For the determination of support prices and for the operation of both the procurement and the buffer stock programs, a considerably expanded and improved statistical and market intelligence service is essential. Reliable data on crop movement, on marketing and on both prices paid to producers and prices paid by consumers, is seriously lacking at this time.

2. Physical Inputs

Fertilizer

Provision of adequate supplies of fertilizer requires in the first instance a rapid acceleration of the establishment of fertilizer production facilities in India and the allocation of adequate amounts of foreign exchange for the import of finished fertilizers, so long as domestic production facilities cannot produce the full amounts required. The increase in fertilizer production during the Third Plan period was little more than a third of the planned increase; in the year just ended existing plants operated at only 63 percent of capacity. A country facing a chronically growing food deficit cannot for long afford short falls ~~ix~~ and inefficiencies of this scale.

The decision just taken by the Government of India to make positive efforts to attract foreign investment in the establishment of fertilizer product facilities is a step in the right direction. The decision that fertilizer projects set up by, or with the collaboration of foreign investors, would be permitted freedom of distribution and pricing of their products for seven years from the beginning of commercial production, should help in attracting foreign investment in this area.

Other steps are probably required; however, for this same purpose. These would include abandonment of the insistence that in those cases where the Government of India is the Indian partner, the foreign investor may not have the majority of the equity or other effective control of the enterprise and its operation and also abandonment of the pressure toward this same end in those cases where private Indian investors collaborate with foreign interests. Also required is some means of assurance that the fertilizer producing enterprises, whether governmental, mixed or private, will have without delay licenses or other authority to import spare and replacement parts and production materials required for the operation of their facilities at full capacity. Investors must also be assured that State and local taxes will not be arbitrarily imposed on their production and distribution operations and that State and local restrictions and controls on sales promotion and distribution activities will not be imposed.

In view of the possibility that in the future, if not now, investment in the establishment of fertilizer production facilities may be inhibited by uncertainty with respect to market demand, consideration

may need to be given in the future to either or both (a) assurance of export licenses or other authority to export at the discretion of the enterprises, (b) subsidy (to the farmer) which will permit marketing of the total output of the plants. ✓

Attention has been focused on the establishment of additional nitrogen fertilizer production facilities. In fact, however, consumption of P_2O_5 has been increasing at a substantially more rapid rate than that of nitrogen (approximately 20 percent per year in the case of nitrogen and more than 30 percent per year in the case of P_2O_5 .) Serious attention must therefore be given to the question of the economics of domestic output of phosphate fertilizers vs. import and to the possible need for expansion of phosphate production facilities. Similarly, adequate allocations of foreign exchange must be made for import, either of finished phosphate fertilizer or of the raw materials for their production.

The recent recognition of the fact that neither the fertilizer pool or the co-operatives were doing an adequate job of promotion by demonstration or other means or of physical distribution of fertilizers, is welcome. This should be followed by measures to ensure that fertilizer producing enterprises whether government, mixed or private undertake promotional programs and establish adequate distribution facilities and networks.

The recent development of a plan for a special intensive program in selected areas represents a desirable step. It reflects recognition

that there is interaction among inputs, notably water and fertilizer. It is important, however, that concentration on the intensive areas not restrict the provision of adequate supplies of fertilizer to other areas.

Water

Although the GOI has invested considerable amounts in the development of irrigation facilities the yardsticks it has applied in estimating the potential contribution of irrigation to increased output seemed to represent a considerable underestimate. Furthermore, the State and Center Irrigation Departments have failed to gear their planning, project designs and annual operations of facilities to a demand for water that reflects its role as an input to agriculture. This is not attributable simply to the reluctance of irrigation engineers to cooperate with agricultural personnel.

A first step in relating water as an input to crop production is the determination of the consumptive need of different crops. Little work on this relationship has been done in India. Little has been done to relate what is known about crop moisture requirements to the moisture holding capacities of different soils to transpiration and evaporation rates and to the probability of rainfall in particular areas. The result is that there are no adequate estimates of the need for supplementary water at various times during the crop production cycle. Consequently, there is no satisfactory basis for designing an irrigation system capable of matching water availability to the probably water requirements of the crops to be produced.

Traditionally, Indian irrigation designers have been concerned with the use of water as a supplementary input to assure drought relief in case of rainfall failure. Most systems consequently have been designed to spread total available water over as wide an area as possible consistent with providing sufficient water per acre to assure a minimal yield of crop. This policy is inconsistent with an agricultural policy which seeks to maximize production per acre by intensive application of other inputs such as fertilizer, new implements, plant protection materials, labor, etc.

The economics of this matter are not simple however, they suggest that proper design would recognize the desirability of optimizing output per unit of water, and would provide water in larger quantities than is now normally provided for the command area. Another factor which argues in this same direction is the factor of water losses as the command area of an irrigation system is expanded. At present only crude rule of thumb data are available in most parts of India to assess water losses in relation to the size of command areas.

There is considerable evidence that when Indian cultivators have control over their own water supplies, they double and triple crop far more frequently than in other systems. There is evidence further that they tend to shift in these cases to higher value crops. Possibly the greatest requirement at this time in India with respect to water for agricultural use, is a program of research and investigation designed to provide solid information on all the aspects of water availability and use including its control and distribution. The need for facts

is imperative, these can come only from research focused of rational water policies.

Plant Protection Materials

Concentrated research effort must be devoted to the development of plant protection materials specifically suited to the specific conditions and requirements of Indian crop production. Attention must also be given to the provision of well selected materials and to the dissemination not only of the materials but also of the information required for their proper use. There is evidence that today materials are in use in India which are substantially inferior to many which are available for the same purposes.

Improved Seed Varieties

The steps recently taken by the Government of India to import improved rice and wheat varieties for multiplication in India and for adaptation to Indian conditions are welcome. However, excessive reliance should not be placed on the use of these seed varieties to generate early substantial increases in agricultural output. These improved varieties, particularly the rice varieties are subject to numerous plant diseases all of which are widely prevalent in India. It remains to be seen in actual experience to what extent they will be attacked by disease and insect pests. The means of control of these diseases and pests, especially if it requires adaptation of the imported seed to produce disease resistant strains may be time consuming.

Examination of the quantities required indicates that the areas thus far contemplated as areas for the multiplication of improved

varieties of seed are totally inadequate. Experience indicates also that both the government and the private firms who have been charged with responsibility for producing improved seed have not performed adequately. Seed sold from these farms was rarely cleaned or tested for germination, and there was no regulation of seed quality and no establishment or enforcement of minimum standards. Efforts in this direction are now going forward. The Government of India could further these efforts substantially by removing the obstacles which are now preventing experienced seed producing firms from western countries from establishing operations in India. The Dekalb Seed Company, one of the few western seed companies now operating in India is apparently preparing to pull out because of unfavorable operating conditions.

Farm Credit

It is widely agreed that the cooperative system in India is not performing satisfactorily. With the need to sharply expand the use of purchased inputs, the credit shortage will become more acute and even more of an impediment to progress. Steps should be taken immediately to establish institutions and mechanisms which will reach into all parts of the country and will parallel and supplement the existing cooperative facilities. Consideration should be given immediately to the magnitude of the credit requirements. It may well be that these have been consistently underestimated. It is particularly important that means be established whereby non-owner farm operators have access at least to production credit and preferably to other forms of credit as well.

Research and Extension

References have already been made to the deficiencies of research. Examination of the research efforts and research product of the existing agricultural research facilities indicates that the record is not impressive. The results show little upward trend in yields of wheat and rice obtained at Indian research stations, and also show that these yields do not compare particularly favorably with the yields presently obtained by many farmers in areas immediately surrounding the research stations. Expenditures on agricultural research are, by contrast with other expenditures and with research expenditures in other areas, small. Expenditure, however, is obviously not a guarantee of successful research effort. Action required in this field relates to the status and compensation of agricultural scientists, to training facilities for agricultural scientists and to a variety of other factors.

Extension services as provided under the community development program have not come close to meeting requirements. Probably especially in the short term there are great returns to be gained from a strengthening of staff in both numbers and caliber at district and block levels.

Transportation Facilities

A concentration of road building expenditures on providing all weather access of villages to existing networks of rail and highway facilities is required. A reallocation of the funds now provided for highway construction is necessary for this purpose. Although the organization of such a program is unquestionably complex and difficult,

there is here the opportunity for productive employment at least seasonally of excess labor available in rural India.

Tenure Improvement

A major requirement in this area and one which should be susceptible to accomplishment is the establishment of greater security of tenure for both land owners and tenants. The existence of far reaching legislation not enforced threatens the security of both tenants and landlords. Resolution of this problem is essential. A conceivable practical step is the establishment of fair rent ceilings enforced via the payment of rents to landlords indirectly through governmental institutions.

Other Program Elements

In addition to those mentioned above, there are a range of actions outside the area of agricultural administration to which attention must be given, if agricultural growth is to be accelerated. These administratively fall in the industry area. Industry must be geared to produce the inputs required directly or indirectly by agriculture. These include cement, pumps, motors, canal lining materials, steel reinforcing bars, structural steels, etc., all required for the expansion and improvement of both surface and underground water development.

The provision of adequate supplies of credit to individual farmers and the undertaking of construction programs by Government agencies will create the demand for these products, but it may also be necessary to take deliberate steps to finance the establishment of expanded facilities for production of the items required. Furthermore, where there are still controls over the allocation and distribution of materials, such^{as} steel

and cement, steps must be taken to ensure that these materials are allocated in sufficient quantities for use directly in agriculture and irrigation programs and indirectly for use by manufacturers of equipment and materials required for agriculture and irrigation. Provisions should be made for a decision-making process at the very highest level of government to decide on the total allocation of resources for agricultural development and the distribution of this allocation among the developmental elements.

The Administrative Machinery Needed to Implement Programs

The policies and programs applicable to agricultural development are formulated and implemented on a governmentwide basis. The responsibility for many of these rests with the Ministry of Food and Agriculture. However, there are others which are the responsibility of other ministries in the Centre government and in the individual State governments. Special attention will have to be paid to coordinating and streamlining these policies and programs in order to achieve the maximum rate of increase in agricultural output from the resources available.

Steps should be taken to organize the policymaking and administrative machinery to correspond closely with the individual elements of agricultural development so that the responsibility for each function can readily be pinpointed. And, there also should be close coordination among the policies and programs for the important development elements. For example, we can treat the whole complex of fertilizer production, importation, and distribution as one element in this agricultural

development process. There should be at some point a centralized decisionmaking unit responsible for the many dimensions of fertilizer.

Similar organizations will be necessary for the other physical agricultural inputs, for credit, for agricultural price incentives, etc. Steps have already been taken in this direction. But these are not enough. The Food Corporation of India for instance, has yet to emerge as a viable and workable organization for implementing an incentive price program. The proposed centralization of authority for the entire fertilizer complex is as yet untested.

The policymaking and administrative machinery should be structured so that there is direct communication between Centre and State governments. Counterparts to Centre government personnel should be located within each State Government and even at the district level. Policy-making and program implementation processes should be standardized at all levels of government so that plans can be translated into effective program action and the results fed back to the planning process.

The final step in increasing agricultural output comes when cultivators increase the use of agricultural inputs made available to them. Special care will have to be taken to insure that cultivators have the incentives and the means to adopt improved agricultural production practices. Further, the effect of these new practices on actual increases in agricultural output must be constantly measured and assessed.

An administrative system which provides accurate and timely data on changes in agricultural production practices and output must exist. This system also must contain a statistical intelligence unit that

provides meaningful information on the performance of Indian cultivators.

It is not enough to measure what progress is being made. It is also important to detect impediments to an even higher rate of progress. Thus, if agricultural inputs are not being made available for cultivators in the right quantity or in appropriate combinations, this fact should be quickly brought to the attention of people responsible for the agricultural development effort. For example, this system should be able to detect if an area has an adequate amount of improved seed relative to fertilizer availability and be able to recommend corrective action so that maximum food output is obtained from the inputs used by cultivators. This holds true for credit, irrigation and pesticides as well.

In addition to assuring maximum use of available agricultural inputs, attention must also be paid to the actual increases in food production derived from these inputs. This information is important to insure not only that inputs are made available in the proper quantities and combinations, but that they are also distributed among crops and regions of the country in ways that yield the greatest possible output. The GOI generally and the Minister of Food and Agriculture in particular, must begin immediately to develop the administrative machinery to effectively implement an accelerated agricultural development program.

OUTGOING TELEGRAM Department of State

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Dec 30 8 00 PM '65

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Origin
NEA

ACTION: CIRCULAR

Info:

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INDIAN FOOD CRISIS

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Department's Circular 1133.

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DECLASSIFIED
E.O. 13292, Sec. 3.4
State Dept. Guidelines
By pc, NARA, Date 3-30-04

1. India's critical food needs and logistical problems in receiving and distributing unprecedented requirements for imported grain in coming year reviewed with GOI Food and Agriculture Minister Subramaniam during latter's visit Washington December 20-22 at Secretary Freeman's invitation. India's long-term self-help agricultural program, which aims at eliminating need for grain imports by 1971, was also reviewed.

2. Subramaniam estimated foodgrain import requirements CY 1966 at 10-15 million tons, depending upon better appraisal size of fall crop and results of spring harvest. Said GOI had plan for using target of 10-12 million tons which Indians believe their ports could handle under current conditions if food imports are given higher priority. (In addition, Indians stated could handle up to 1.6 million tons bulked and bagged fertilizer CY 1966). During talks here, it was agreed that Indians would undertake contingency planning on basis possible grain import requirement 15 million tons. Subramaniam suggested and Freeman agreed that a U.S. team go to India in very near future to help assess food situation and

Drafted by: NEA: SOA: SSober: atm 12/30/65 telegraphic transmission and classification approved by:

NEA - Ambassador Raymond A. Hare

Clearances:

AID/NESA - Mr. Farr

S/P - Mr. Johnson

IO - Mr. Kotschnig

USDA - Mrs. Jacobson

E - Mr. Arnold

S/S -

M/FFP - Mr. Reuter

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and make suggestions for improved port handling capacity, internal transport and distribution. Team tentatively scheduled to leave early January.

3. Subramaniam expressed deep personal concern with Indian protein and malnutrition, particularly needs of children/expectant and nursing mothers. In addition meeting current minimum requirement, he said he hoped India would emerge from crisis with continuing program re protein malnutrition.

4. US made no commitment beyond the 1.5 million tons foodgrains under PL 480 amendment signed December 10, which Indians have been encouraged schedule for shipment as fast as possible. In addition to grain, GOI has asked US to supply dry milk and vegetable oil. Has also requested Title II PL 480 grant program to meet current emergency need. These requests currently under consideration. Although what US might do to help meet India's crisis needs was left open-ended, President, Secretary Rusk and Secretary Freeman expressed to Subramaniam their concern over India's emergency needs. Subramaniam expressed gratitude for very substantial help US has been providing in past years and for our recognition India's current critical situation. On basis talks here, Subramaniam said he felt he could now proceed with confidence in mapping out how to meet this year's crisis.

5. During Subramaniam's visit here, President, Secretary Rusk, and Secretary Freeman emphasized to him importance US attaches to special international effort to help India meet its grave food problem. We believe India must make major effort solicit food, fertilizer, shipping, cash, or help in any other way that might mitigate crisis. We consider such help important not only in itself

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but significant in gaining Congressional and public support for whatever special assistance US might decide to provide.

6. We have been informed that GOI has made informal soundings for help to Australia, Canada, Denmark, France, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Yugoslavia, UK. (Department has recently had queries this subject from Embassies of Australia, Canada, Denmark, New Zealand, Norway and UK.) In addition, Secretary Rusk mentioned to Chancellor Erhard here on December 21 that India will need great deal of help on its food problem from friends abroad.

7. Department planning invite diplomatic representatives all countries mentioned para. 6, including FRG, for informal discussion Indian requirements early next week. Intend review what Indians have asked them for and what we have been doing, summarize talks here with Subramaniam, and emphasize importance of true international effort. We will make clear we are supporting Indian initiative and that leadership in international effort rests with Indians. Discussion will supplement informal talks already held at lower level.

8. You should follow up Department's approach, drawing as appropriate upon above for background on Indian situation, US view, and urgent need for positive international effort help India in current crisis. Special instruction follows separately for London, Ottawa, Canberra.

END

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ACTION TO: Amembassy BELGRADE
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THE HAGUE
TOKYO
WELLINGTON

INFO TO: Amembassy NEW DELHI
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OUTGOING TELEGRAM Department of State

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ACTION: **Embassy, NEW DELHI** **IMMEDIATE**

Info:

415 102 249 3709 1024
INFO BOMBAY, CALCUTTA, MADRAS, LONDON, KARACHI

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Authority Group 4

SAH

By jc, NARA, Date 3-30-04

L

VISIT TO DELHI

H

Following discussion during Subramaniam visit and at his request I

EUR

plan to send a team of specialist officers to India for about three weeks

NEA

beginning January 9. Purpose of visit will be to make on-the-spot

P

USIA

examination of food problems particularly related to shipping, port and

NSC

distribution elements which may become critical as shipments increase.

INR

CIA

C. R. Eskildsen, Associate Administrator of FAS, whom I have named to head

NSA

SCI

an Interagency Task Force on this problem will head the team. Other members

AID

PC

are expected to include, Horace J. Davis, Assistant Administrator, FAS,

E

COM

Raymond E. Vickery, Director, Grain and Feed Division, FAS, Frank Ellis,

HEW

NAS

Director, Food For Peace Division, AID, Joseph A. Ryan, Chief of FAS Ocean

TRSY

Transportation Branch, Howard J. Marsden, Chief, Division of Ports, Maritime

FFP

Administration, and probably two or three others.

may be able to come to India

I greatly appreciate your invitation and ~~XXXXXX~~ in which case

about January 20 - 26, ~~XXXXXX~~ I would like to see some agri-

cultural areas, have report from specialist team and confer with you,

Drafted by:

Telegraphic transmission and

NEA - Raymond A. Hare

JHBoulware/CREskildsen 12/29/65

Classification approved by:

~~XXXXXXXXXX~~

Clearances:

SSoer/State
JWJohnston/AID
S/S- Mr. Walsh
White House - Mr. Komer

AGRIC: CRDonovan

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OUTGOING TELEGRAM Department of State

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INDICATE: COLLECT
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Info:

ACTION: Amembassy NEW DELHI IMMEDIATE 1169
INFO: Amembassy KARACHI 1033
Amembassy LONDON 3742

India food

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Dec 30 7 51 PM '65

EXDIS

Following summary from White House memcon of President's very cordial meeting December 20 with Subramaniam.

1. President said Secy Freeman had done fine job filling him in on Rome discussions and Subramaniam's program and leadership. Subramaniam responded with appreciation for US support and expressed conviction agriculture now had first priority in Fourth Plan.

2. In response Shastri's best wishes brought by Subramaniam, President said he was looking forward Primin's coming.

3. President expressed deep concern over Indian food crisis and need to mobilize not only food but also shipping, ports, inland transport and distribution; said problem ought to be attacked just as if we were in a war. Important that India organize major international effort on food crisis. More others could do, the more helpful we could be. Assistance from ^{third} ~~the~~ countries would help mightily in Congress.

4. Explaining US policy, President said we were not interested in disciplining anyone; all we wanted was India's friendship. Neither were we cocky about our economic ^{successes;} ~~successes~~ we had our own problems. President was going to try to achieve new results in food and agriculture, health, population, and education abroad as well as at home. We would exercise persuasion but wanted provide incentives too. Referring to Subramaniam's new program, President told him "If you can keep this program going we can help you more."

Drafted by:

Tel. Ext.

Telegraphic transmission and

classification approved by:

NEA:SOA:SSoer:phr 12-23-65
from White House Memcon

4034

NRA - William J. Handley

S/S - Mr. Walsh
White House - Mr. Saunders

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FORM 8-63 DS-322

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E.O. 13292, Sec. 3.4
NSC Memo, 1/30/95, State Guidelines
By *jc*, NARA, Date 3-30-04

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Classification

5. Subramaniam thanked President and raised special importance of separate program to care for needs of India's children, to which President responded warmly.

6. President said that during recent visit Ayub had not criticised anything we doing for India. President had deliberately authorized \$50 million fertilizer loan before Ayub came so he wouldn't misunderstand our policy. Ayub realized he couldn't write our Indian policies for us. President has asked Ayub if Pakistan's ports could be used if necessary move in food for India. Ayub had replied would be manageable if practicable. Subramaniam agreed something along these lines would be excellent means promote Pak-Indian rapprochement.

7. President mentioned three points important to US-Indian collaboration:
(A) If could find some way get Kashmir considered and out of way, would help us get on with much more important things. (B) Hoped India would get other countries to help meet food crisis. (C) US people had to have some hope that India would be able take care of itself and even help others in due time.

8. In conclusion, President asked Secretary Freeman to see what was needed in crash program. Freeman should follow every sack of wheat from US silo to Indian stomach; we must try avoid any holdup because of inadequate ports or distribution. Also, we should help get others in the act and to contribute.

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UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
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103

FARIDKOT HOUSE
NEW DELHI-1 INDIA

December 28, 1965

MEMORANDUM FOR MR. ROBERT KOMER
THE WHITE HOUSE

SUBJECT: Our Chance of a Rousing Success in India

Progress During the Past Month

1. The Administration has a right to feel proud of the progress of its India policy since I last wrote you a month ago about the problems of aid resumption. The U. S. has helped engineer what could be a breakthrough for Indian agricultural expansion:

a. The new near-term and longer-term agricultural program that Subramaniam, with Shastri's support, pressed through the Cabinet and announced in Parliament the week of December 5 has more solid content and promise than any comparable program since Independence. It is more radical in its emphasis on

- . fertilizer imports
- . enlistment of foreign private investment in fertilizer, pesticide, and seed production, and
- . resort to the free market, especially for fertilizer distribution,

than anyone could safely have forecast even two months ago.

b. Certainly the timing and probably the content of the new program owe much to U. S. pressure -- both our recent generalized pressure in behalf of agricultural self-

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Authority AID Guidelines 10-16-95

By pc, NARA, Date 3-30-04

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reliance and the specific negotiations that reached high gear in the Freeman-Subramaniam Rome talks.

- c. The outcome is all the healthier because our specific role in the exercise has been closely held; indeed, most of the Indian Cabinet are not fully aware of it.
- d. The timing as well as the substance of the President's December 9 announcement of the 1.5 million tons of wheat and the \$50 million fertilizer loan admirably met the internal Indian political need for a forthcoming U. S. gesture before the Johnson-Shastri talks -- especially since the "gesture," instead of being cosmetic, was so plainly responsive to urgent practical needs.
- e. Our concern over the near-term food emergency has been emphatic, conspicuous; is appreciated, is helping intensify India's own preparations for the emergency. (We shall of necessity be so heavily engaged in this quarter in the next few months that we must take particular pains not to lose sight of the longer-term possibilities and issues that mainly concern us.)
- f. The agriculture and food momentum established earlier in the month was reinforced during Subramaniam's Washington talks.
- g. In some ways the most auspicious development of all has been the GOI reaction to our performance conditioning of the \$50 million fertilizer loan:
 - The assurances we asked were all sensible, all economic, all in the Indians' own interest; and we emphasized (i) the directness of our (PL 480-connected) concern over the adequacy of the Indian agricultural effort and (ii) the fact that this new style of AID lending is being adopted worldwide, not just for the subcontinent.

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- Nevertheless our list of conditions was a yard long and of a kind which would have made the Indians bridle a few months ago.
- Not only did the GOI give all the requested assurances, including its determination to recruit foreign private investment in about 1 million tons (nitrogen equivalent) of new fertilizer production capacity during the next six months; it gave the assurances briskly and cheerfully, agreeing readily to periodic reviews of progress. Moreover, this streamlined negotiation was conducted, not with Subramaniam's Food and Agriculture Ministry, but with T. T. Krishnamachari's Finance Ministry.
- Obviously the negotiation was facilitated by the fact that the Indians had just adopted most of our conditions on their own the week before. But the very fact that they had done this and then immediately observed the way good self-help pays off should speed the acceptance of similarly conditioned assistance in the future.

Seizing the Opportunity for a Major Success

2. The mood and momentum have now been established for a resumption of aid that, while in no sense easing up on our new style of tougher performance conditioning, can drive forward swiftly -- if the President's talks with Shastri go well -- to exploit the opportunity for major long-term gains which our tactics of recent weeks have opened up. This memo is about that opportunity. My fear, as I noted last month, is that in our concern not to be soft touches about aid resumption (which we certainly shouldn't be), we may forget that our suspension of assistance has not just been squeezing the Indians; it has been delaying our own chance of making a very big U. S. foreign policy score in India.

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3. This thesis is presumptuous on one count: It assumes that, if Indo-Pak hostilities had not interrupted the process, the President before this would have emerged from the intensive review of the South Asia economic assistance programs he ordered and undertook himself last spring with a strong "GO" rather than "slow down" decision. Personally, I've never had much doubt of this because

- a. closely examined, India's importance to us is so great and the opportunity for a U.S.-promoted Indian economic breakthrough is so ripe (see below); and
- b. the whole potential Indian show so clearly fits the President's personal style of operations. I judge this last largely from the close-in view of his style I got when I was with CEA:

- What's called for in India is a combination of hard-headed, economizing toughness and far-sighted, risk-taking expansiveness. This is exactly the formula the President has used in his domestic program. Two years ago he stunned us all with his FY 1965 budget -- and he's never relaxed his management of the budget. But the purpose of the toughness and economy has been to muster support for the most expansive domestic human betterment program on record.
- The stakes in India are big and they require a bold attack.
- They demand concreteness in the pursuit of people-oriented objectives that too often have left other politicians looking like dreamers.
- India offers him a good shot at a first-rank, historic foreign policy success at a time when such opportunities elsewhere in the world are scarce.
- The circumstances call for a new assistance program -- a new aid deal -- that can bear the President's own distinctive hallmark. And we know what that program should be.

The Dimensions of the Opportunity

4. As you well know, the needed program is what, within the AID and IBRD families during the past year, we've been calling "the Big Push." It is our notion of what should happen during India's Fourth Five Year Plan (1966/7-1970/1). The scheme has two aspects:

- a. It would push hard on the Indians by conditioning Fourth-Plan Consortium assistance on major improvements in Indian policies, particularly with respect to
 - . agricultural production
 - . family planning
 - . de facto exchange rate adjustment
 - . economic liberalization, especially of imports
 - . export expansion
 - . promotion of foreign private investment
 - . mobilization of idle manpower
- b. It would cut back aid if the Indians failed to move on the above counts; but if they made convincing commitments to move, it would support their effort to speed up their economic expansion with a revamped aid program.

// The phrase "Big Push" turns out to be more descriptive of the results that can be had from such an effort than of its aid costs. During the first two or three years of the Fourth Plan, while the new approach was being tested and proven we would propose that, without notably increasing Consortium pledges,

- (i) the whole Consortium reallocate its aid heavily toward nonproject loans for financing increased imports of raw materials, spares, and components in order to break production bottlenecks, run existing facilities up to full

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- 6 -

capacity, and thereby provide the maintenance-import backing for liberalization and exchange rate adjustment, and

- (ii) the U.S., in particular, channel more of its loan assistance to agriculture and its supporting industries.

(1969)
Thereafter if the Indian economy responded as we expect, it would justify some increase in loan assistance -- temporarily, for a few years -- as a means of getting the aid job done right and yet done sooner.

- You have the projected details of the Big Push approach, which I believe is being built into the briefing papers for the Shastri visit.
- As a result of continuing analysis, discussion, and refinement during the past year, the approach has won the support of just about every U.S. AID and Indian specialist.
- Although the Consortium would need to take special care to assure itself that the economy was not being dangerously skewed toward defense activity (such skewing at present seems very limited), the approach requires no major modification in the light of the Indo-Pak hostilities.
- Accordingly, rather than detailing the Big Push strategy the balance of this memo concentrates on the dividends the strategy could yield.

5. Indian economic performance during the past 15 years has been pretty fair -- a slow, steady climb -- but not good enough. The essence of the Big Push scheme is to engineer a kink, a break, in the trend -- to tilt the growth path more sharply upward in a hurry, and then keep it rising at the steeper rate. Is the economy really ripe for such acceleration?

The answer is an emphatic yes.

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- a. You know the story now in agriculture. Every Indian Food Minister since the early '50s has had a program for accelerating India's pretty-fair 3% annual rate of foodgrains expansion to the needed 4-1/2-5%. But Subramaniam's is the first program likely to do the job -- both because the program itself is more solid and incisive, with its proper emphasis on fertilizer, outreach to foreign private investors, and plan for hosing the inputs to improved varieties in sizeable intensive agriculture areas; and because the cumulative impact of past efforts (e. g., upon the demand for fertilizer) has laid a good base for the push now starting.
- b. The industrial economy also is poised for rapid, sustainable speeding up -- for the simple reason that for several years now it has been running far below capacity for the lack of essential imported raw materials, spares, and components. Breaking these bottlenecks can yield an immediate substantial response.

6. With strenuous effort and a little good luck, what can be done is this:

- Average annual growth in food production can be raised from 3% to 4-1/2-5%, making India self-supporting in food within 10 years.
- The average annual growth of total GNP (corrected for price changes) can be raised from its recent 4% to 6% if -- with agriculture moving as indicated -- industry can be freed up and grubstaked with additional maintenance imports.
- This freeing up process (see our Big Push documentation) can be the best stimulus one could devise for promoting indigenous substitutes for imports, pushing exports, and attracting foreign private investors.

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- 8 -

- Per capita annual growth of food production can rise from 1/2% to 2-2-1/2%, and the per capita advance in total output can more than double its grudging 1-1-1/2% annual rate of the past 15 years. Moreover, as the population growth rate is curbed and as India proves her capacity for exceeding an annual 6% growth rate in total output once the acceleration process has been well launched, these initial Big Push per capita gains can be substantially exceeded within a very few years.
- Not only would such a quick doubling or trebling of average annual improvement in individual well being be an enormous improvement by Indian standards and robustly reinforce the country's commitments to constitutional democratic processes of change; it would measure up to almost the best ever achieved for a sustained period anywhere. Such a performance would finally make the world's largest democracy the developmental showcase we have long wanted it to be.

7. It is only such an acceleration of Indian performance that can put us out of the aid-to-India business -- successfully. We can pull out any time, of course, but not without inviting a spreading disaster in Asia until India can keep growing fast enough to keep peace internally while paying her own way in the international market. Faster growth, which can accelerate savings, import-substitution, and exports, is the one feasible means by which the country can begin to narrow its trade deficit.

While no exact forecast can be made, India should be rapidly approaching self-support 10 years from now if the Big Push strategy is adopted and pressed. At the present pace, on the other hand, there is no visible tendency for exports to start overtaking imports. The need for aid looks endless.

8. The broad political and strategic payoffs that could accrue to us as the prime external accelerators of Indian economic performance

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- 9 -

have been treated in a number of Embassy messages and papers. At any rate, you know the subject better than I, and I shall not dilate on it here. However, two matters of practical political timing are worth noting:

- a. The proximity of the next (February 1967) Indian General Elections is bound to condition the GOI's response to our aid negotiations -- in some respects, adversely. For example, the proximity of the elections might forestall an earlier departure of TTK from the Cabinet. On balance, however, the proximity of the elections should heighten the GOI's desire to get aid commitments for the earlier phases of the Fourth Five Year Plan tied up. This should increase the GOI's receptivity to the economic-performance conditioning of our assistance -- especially if the full extent of the conditioning is not publicized.
- b. A quick and strenuous launching of the Big Push strategy could yield impressive results before the U. S. general election of November 1968.

He just resigned - a victory for us

Recommendations

9. The post-talks pace of economic aid resumption. In October the talk around Washington was of a slowly staged and phased resumption of aid after the President's projected meeting with the Prime Minister. However, two things have changed -- one for sure, one apparently:

- Through no fault of either the Indians or ourselves, the talks are occurring nearly two months later than hoped for. With new loan and grant assistance (with the important exception of the \$50 million fertilizer loan) remaining stopped, the economy will have been wrung out a great deal more than we had expected -- since the wringing out process becomes cumulative as supply interruptions spread from one industry to another.

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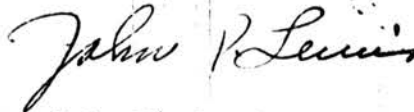
- 10 -

- It had earlier appeared that the political conditioning of our aid resumption might be fairly severe from the Indian viewpoint. This suggested the need for a considerable lapse of time for observing political performance before full resumption of economic assistance could be decided. The situation is quite different, however, if the difficult conditions we propose putting to the Indians are primarily economic.

If, therefore, the President decides to go for the Big Push approach and if his meeting with Mr. Shastri is generally reassuring, I would hope for a quick full-tilt start on Big Push bargaining. Because it will be so heavily and elaborately performance-conditioned, the bargaining is bound to be strenuous and prolonged in any case. If this is the direction we are to go, I hope we can get started no later than February.

(For the purpose of this memo, I am by-passing the question of how much interim nonproject assistance may be appropriate for bridging to that point in time when a longer-term deal has been completed.)

10. The post-talks pacing of aid-to-India decision making. In the foregoing I have been surmising, in effect, that one of these days, maybe soon, the President may want to turn a pretty sharp corner in the India program. He is not, I am sure, going to want to soften our day-to-day decision making as to new loans and projects. But he may want radically to speed it up, and this may require some explicit effort. Inevitably when an administrative team is kept for a long time under as tight a rein as he's had on us since last spring, the team gets awfully cautious. I see it myself and in my Washington colleagues: We've slipped out of a can-do into a go-slow pattern of operations. If the President should now shortly want us to get jumping -- not loosening up on our individual standards, but, exercising our discretion to move good programs wherever we can -- it may pay the White House to give us all a nudge in this direction.



John P. Lewis

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ACTION: Amembassy NEW DELHI IMMEDIATE

1121

India food

INFO : Amembassy KARACHI 1004
" LONDON 3609
AmConGen BOMBAY 403
" CALCUTTA 95
" MADRAS 239

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Authority Group 4

By jc NARA, Date 3-30-04

FOR BOWLES FROM FREEMAN

1. Meetings with Minister Subramaniam very useful. Food shortages, port and internal transport facilities, and long-range fertilizer production, import and distribution reviewed.

2. US made no commitments beyond the 1.5 million tons authorized December 10, but for logistical planning purposes we are using CY 1966 minimum grain deficit 10 million tons maximum 15 million tons. We have asked the Indians to be ready with contingency plans for the maximum.

3. Indian delegation supplied comprehensive port handling report indicating capacity to handle 10 million tons wheat, 1/2 million tons rice, 1.6 million tons bulked and bagged fertilizer CY 1966. Some persons here familiar with Indian port operations question this capacity. However, India has been authorized to procure and ship the 1.5 million tons as soon as possible which should begin to test their handling capacity by early March. If GOI successful in obtaining contributions from other nations and diverting nearby grain-carrying ships into Indian ports over next few weeks port capacity should be

Drafted by: ETOLson/ob 12/23/65 2711 Tel. Ext. Telegraphic transmission and classification approved by: WJHANDLEY

Clearances: USDA (in draft): SEC - IRBrown ETOLson DEPT STATE:NEA/SOA - SSober
FAS - REVickery
FAS - CREskildsen AA7NESAWFarr
SEC - OIFreeman AGRIC:CRDover S/S Mr. Walsh

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tested sooner.

4. Have strongly urged Subramaniam approach other major grain-producing nations, particularly Canada, Australia, France for assistance. Similarly suggested the UK, Germany, Japan and some smaller nations could contribute to India's long-range fertilizer program and assist with equipment to ship, unload, store, and transport grain. Subramaniam indicated India's initial efforts this direction discouraging but promised continued effort. FYI results of continued effort will be significant in gaining congressional and public support for any greatly increased US assistance.

5. During talks on Indian food situation and Indian grain handling capacity, Subramaniam suggested and I agreed that a US team come to India as soon as possible to assess current food situation and make suggestions for improving port handling capacity, internal transport and distribution. Team tentatively scheduled to leave early January.

6. In meetings here Subramaniam expressed deep personal concern with India's protein malnutrition, particularly the protein needs of expectant mothers and pre-school children. He indicated this of highest priority and mentioned some committee formations and relief group organization action he has already taken. He expressed intention to come out of crisis with continuing and ongoing program re protein malnutrition. At my request representatives of USDA, AID, Food For Peace, Peace Corps, and National Academy of Sciences held joint meeting with Minister's private secretary, S. Venkitaraman and S. Guhan of the Indian Embassy. Indians described current protein malnutrition and present and long-term plans to meet deficits. US representatives stressed improving availability from India's domestic sources now

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and offered suggestions to improve long-term supply. Indians were urged to give strong support to working conference on low-cost protein concentrates for human consumption tentatively proposed to be held in India early spring under the US-Japan Cooperative Medical Science Program. Indians took copious notes, expressed appreciation, stated they found suggestions most useful and would be prepared to discuss specifics with US agencies concerned after review with GOI. General feeling here that Indians are concerned, intentions are good, but their implementation plans are still in initial stages.

7. Re your recommendation for 17,500 tons dry milk (EMBTEL 1378) the cotton and vegetable oil mentioned (EMBTEL 1532), these commodities are under consideration here and will advise you. Subramaniam did specifically request 150,000 tons of vegetable oil during the meeting.

8. Re TOAID 844, Title II request was discussed with A. L. Dias during the meetings and this is currently under review here.

9. Indians are prepared to book shipping ahead so that any agreement reached by Prime Minister and President can be implemented immediately.

10. Text of my December 22 summary letter to Subramaniam follows in separate cable.

END

GT-4

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OUTGOING TELEGRAM Department of State

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INDICATE: COLLECT
 CHARGE TO

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India food

86

Origin
NEA
Info:

ACTION: Amembassy NEW DELHI 1124 IMMEDIATE

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INFO: Amconsul BOMBAY 405
Amconsul CALCUTTA 97
Amembassy KARACHI 1607
Amembassy LONDON 3612
Amconsul MADRAS 241

DECLASSIFIED
E.O. 13292, Sec. 3.4
State Dept. Guidelines
By jc, NARA, Date 3-30-01

1. Following summary of Secy Rusk's meeting December 22 with Subramaniam FYI only and NOFORN. Food Secy Dias and Amb. Nehru also present. It is unclassified and subject to amendment upon review of memcon.

2. Secy expressed particular interest in what assistance India expected from third countries to help meet critical need, and in what India doing to get such help. Emphasized importance of India's pressing for broad international assistance in food, fertilizer, shipping and cash, and urged Subramaniam not take "No" for answer. Subramaniam said had just heard Canada would be coming through with some food within next few months. Hoped Australia would provide some grain from its reserves. Promised intensify India's effort on third-country help. Secretary said we would support these efforts/ Congress would have major interest in knowing both what India was doing to help itself and what other countries were contributing.

Drafted by: NEA:SOA:SSoer:mlb 12/23/65	Tel. Ext. 4034	Telegraphic transmission and classification approved by: NEA - Raymond A. Hare
Clearances:		

S/S - Mr. Walsh

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3. Secy asked whether US would be held responsible if there were starvation in India. Subramaniam replied "there may be resentment" if people are short of food and have impression that food is available "somewhere".

4. Secy expressed great respect for courage and energy with which Subramaniam tackling India's longer-term agricultural problems. Most encouraging that Indian Cabinet had now given such high priority to agriculture. Subramaniam thought target of eliminating need for grain imports by 1971 was technically feasible, but recognized that from organizational standpoint it was no more than "possible." Implementation of program the key. Hoped concentration on best farm areas would set example of higher yields that would spread to other areas.

5. Secy said we were looking forward to Shastri visit. Hoped by then progress toward India would have made/peace at Tashkent. Subramaniam said he was afraid conversations with Pakistan would be long drawn out. Hard to foresee Kashmir as first problem to be discussed and solved. Two countries must start by talking about their overall problems. In context recent fighting, Subramaniam didn't think India could even buy rice from Pakistan, if any available. Added that no Indian government could survive if it offered to give Kashmir away. Secy said he had concluded US doesn't have capital in either country to bring about solution their common political problems, although each country seemed think we could control other country. Reaction of our own people to violence between India and Pakistan/cuts us out of picture when they start fighting inevitably

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Subramaniam commented that Indian government and people also recognized tragedy of any conflict, with China as well as with Pakistan.

GP-3.

END

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OUTGOING TELEGRAM Department of State

INDICATE: COLLECT
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Classification

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FOR OC/T USE ONLY

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Origin
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ACTION: Amembassy NEW DELHI IMMEDIATE 1122
 INFO: Amembassy KARACHI 1005
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 AmConGen BOMBAY 404
 " CALCUTTA 96
 " MADRAS 240

DEC 23 6 13 PM '65
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DECLASSIFIED

Authority FR 64-168 vol. 25 #272
 By jc NARA Date 3-29-01

- BUNDY-SMITH
- BOWLER
- BOWMAN
- CHASE
- COOPER
- JESSUP
- JOHNSON
- KEENE
- KOMER
- MOODY

LIMDIS
 FOR BOWLES FROM FREEMAN

Reference our tel re Freeman-Subramaniam December 22 summary letter text follows:

Dear Mr. Minister:

We were pleased that you could accept our invitation to come here on such short notice to discuss the food situation in your country. Your visit has made us intensely aware of the serious difficulties faced by your people and of the means by which our governments might cooperate in meeting these difficulties.

As you make your plans to speed the movement of grain into India, it would be most helpful if you could provide on a weekly basis information on the arrival of grain by ports as well as supply and distribution information on grain under the control of the Central Government. We also need more detailed information on a monthly basis, including the supply and distribution of grains held by the states. I understand that representatives of your Government and mine are in agreement as to the detailed format for this

Drafted by: ET.O. Tel. Ext. 2711 Telegraphic transmission and classification approved by: WJHandley

Clearances: USDA (in draft): SEC - IRBrown DEPT STATE: NEA/SOA - SSober
 FAS - REVickery AA/NESA: WFarley AGRIC: CRDonovan
 FAS - CREskildsen SEC - OLFreeman
 SEC - OLFreeman

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reporting. We would hope to be advised of any unusual situations which would affect the movement of grain.

We understand that you would welcome a team of US specialists to make a quick survey of the port and internal transport system; along with ^{storage} ~~exchange~~ facilities. We are prepared to send such a team within a few weeks. The leader of the team, someone well acquainted with Indian agriculture and food problems, might be stationed in New Delhi working closely with you. I might designate a Special Representative who would be on a more permanent basis. He would keep me posted on progress in implementing your longer-term agricultural development plans. If he could have access to you and be privy to your plans it would be very helpful.

After current crop prospects, the short-fall in 1966 and the potential 1967 short-fall have been reviewed once more, we believe that an appeal should be made for external assistance to the "Community of Nations". This appeal should be made as quickly and dramatically as feasible. It would be well if it preceded the meeting between Prime Minister Shastri and President Johnson in early February. This might even take the form of an appeal by the representative of India to the United Nations.

It is also my understanding that you have begun to examine the possibilities of using large bulk carriers to discharge grain in midstream into smaller vessels and lighters for ultimate delivery to ports. In our discussion, there appeared to be certain problems in connection with the registry of the "liberty" type or smaller vessels which might be used for this purpose as well as the availability of such vessels. I trust you will be examining this situation further with the objective of increasing the overall discharge capacity at your ports as rapidly as possible.

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We would like some help from you in overcoming certain problems we face in the United States. Internal rail transport and some ports are already in full use. If shipping requirements are increased, we may need to use facilities not normally used for shipments to your country. Your cooperation and that of your purchasing mission here in Washington in meeting these problems and limitations we face will be appreciated.

We are pleased with the progress that we have been able to make during our talks this week and we hope that we can continue our further close cooperation during the months ahead. Please keep us informed of any way in which we can be of further assistance.

You have done a splendid job here and left a strong favorable impression with everyone.

I have enjoyed coming to know you personally and look forward to a close and enjoyable personal and working relationship:

Sincerely yours,

ORVILLE L. FREEMAN
Secretary of Agriculture

END

GT-4

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Classification



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON

107

December 23, 1965

India Food

MEMORANDUM

To: The President
The White House

From: Orville L. Freeman
Secretary of Agriculture *OLF*

Subject: Talks with the Indian Minister of Food and Agriculture

We have completed extended and friendly talks with Minister Subramaniam. He was accompanied in these talks by the Indian Ambassador and staff specialists on short and long range food problems in India.

On our side Dave Bell, Paul Ignatius, and Dick Reuter took part along with staff specialists from State, AID, Defense and the World Bank.

We had a detailed and penetrating exchange of views on India's plans and our potential for meeting the immediate food emergency and on the policies and programs which the government of India has recently set in motion to meet the long term food and population crisis.

About 25 members of the House and Senate took part in a dinner discussion with the Minister Monday night. They heard him speak and questioned him closely, particularly in regard to self help efforts in India. They also pressed for information on what countries other than the United States are prepared to do to provide food, fertilizer and other assistance to India in the crisis months ahead. I believe this discussion improved our prospects considerably for a constructive discussion of the Indian situation with Congress early in the session.

Subramaniam also is meeting with American private fertilizer companies including private sessions with companies with whom they have been in negotiations. I am informed that the American fertilizer people

1/23/65

2--The President

are encouraged but still skeptical. However, we believe they are prepared to make another effort. We are encouraging them to do so and at every opportunity emphasize to Subramaniam that American capital has been disillusioned and he must proceed carefully and aggressively to earn their confidence if India is to get the fertilizer it needs so badly.

The Immediate Problem

Subramaniam's present crop estimate of 76 million tons of food grains in 1966 plus 11 million tons of imports would be 8 million tons short of last year's 95 million tons of food grains which included 7 million tons of imports, 6 million from the United States. The Indian government believes that with stringent rationing and belt-tightening (cut ounces of grain from 12 per day to 8 or even 6 if necessary) they can get by with 11 million tons of imports if the crop does not deteriorate further. Ten to 12 tons appears to be a firm minimum-needs figure if widespread starvation is to be prevented. Subramaniam assures us that current scanty reserves of about 3 million ton held by the Center and State Governments are now being used to prevent starvation and that reports of current widespread famine are exaggerated.

The 76 million ton production estimate may have to be revised down next January when the returns on the crop currently in harvest are known. We are doing forward planning to meet such a contingency.

We pushed the Minister hard in regard to Indian port capacity, how it might be expanded, and his willingness to risk labor disputes if necessary, the availability of internal transport, and the authority for the Center Government to bring the States into line in distributing food grains. He gave us the strongest assurances of his willingness and ability to act on all of these points.

3--The President

If the Indian government can carry through on these assurances, it is our best judgment now that one million tons can be imported and distributed each month beginning in February 1966 through the normal port and distribution facilities. On this basis estimating 750,000 tons during monsoon months, the ten to twelve million-ton target can be reached for calendar year 1966. This assumes that the United States and other donor countries can immediately fill and "keep the pipelines full" at all times. To make sure that there is no lag in supply and resulting failure to fully utilize the one-million ton port and distribution capacity, it will be necessary:

1. to divert some shipments currently at sea en route to non-emergency destination (otherwise about 700,000 tons of the 11 million ton 1966 capacity will be lost or will have to be made up later by emergency means) and
2. to be sure there is steady loading and despatch of vessels from the export end from now until the next harvest is in hand next fall.

We were impressed by the Minister's attitude and determination to move imported food quickly into hungry bellies. However, I feel it necessary to make our own on-the-spot estimate of the supply situation and verification of the Indian capabilities early in 1966. The Minister has agreed to work closely with a team of experts which I tentatively plan to take or send to India about the second or third week in January.

We also discussed a "contingency plan" to go into effect if the Indian crop now in harvest deteriorates further. We were told that an additional short-fall of five million tons is possible. That would mean a crop of 71, rather than 76 million tons. The details of adding port and internal distribution capacity if the situation should worsen are now being staffed out. We are confident that another five million tons can be handled by taking extraordinary measures such as lightering from large tankers with small boats into smaller ports if required. We will know by February or March whether we must face this contingency. U.S. supply availabilities are adequate but such a 15 million ton volume would strain our own internal transport and port facilities. U.S. commercial exports are running at a record level now. Some ports are already near maximum levels and box cars, as you are well aware, are short. Forward planning for this is also under way.

Pursuant to your instructions and the Minister's strong interest, special planning is under way to provide for nutrition supplements for children, nursing and pregnant mothers.

4--The President

The Long-Term Problem

Subramaniam set out in further detail the long-term policy and program commitments which the Indian Cabinet agreed to shortly after he and I talked in Rome. The program follow-through here is not as precise or detailed as the plans to meet the short-run logistic problem. Accordingly, we are now establishing with the Indians machinery to check India's progress in fertilizer development, seed distribution, price incentives, etc., according to agreed-upon progress check points. Working with AID and the Indian government in Washington and in Delhi, such a series of check points, jointly reviewed, maybe quarterly, will make it possible for us to know whether the Indians are just talking or making tangible progress. Such a procedure will make it possible for the U.S. to make its long-term aid and technical assistance contingent upon specific actions and measured progress by the Indian Government. Subramaniam was receptive to this proposal.

I won't burden you with the details of India's long-term plan to become self-sufficient by 1971 at this time. It involves earmarking 32 million acres of the best quality, best watered land in the hands of the best cultivators. Fertilizer supplies, improved seeds, credit and other factors will be concentrated on these lands with the objective of adding one ton per acre to the output by 1971.

It is clear that much thought has been given to the specifics of fertilizer, seeds, irrigation, chemicals, machinery and credit. The big job of carrying it out remains ahead.

5--The President

General Comment

Subramaniam and Ambassador Nehru were tremendously impressed with the warmth of your welcome and the deep concern you expressed that people, especially children, must eat and your strong statement that we must declare "nuclear war" on obstructions to moving food to people. You sent him away deeply impressed with your sincere concern and interest in the Indian people.

Subramaniam's personal performance impressed our people favorably. He knows his subject and demonstrates firm confidence that he has the support of his Government and can carry forward his plans to action.

Subramaniam expressed to me his deep concern that the general economic assistance program for India be resumed. Clearly, its lapse is hurting them severely. I told him that would be reviewed by the President and Prime Minister at the appropriate time, but I felt it would strengthen India's case if he made quick progress in agriculture. In effect, I said he can make agriculture the "blocking back" for the rest of the Indian program. He agreed.

He asked what he might say on his return to India expressing concern about possible political attacks from the Communist and fanatic Hindu party if there were no definite and measurable assurances of further United States availabilities. I responded that he knew his own politics best and I couldn't tell him what to say but I would recommend that he report on the action taken here as a result of the President's personal directive to move promptly the 1.5 million tons already programmed and that alternative plans for the future were reviewed but that no future commitments were made beyond the President's expression of sympathetic concern. I further advised that he emphasize that other countries in addition to the United States must help and that the extent of India's request to the United States would not be known until this was determined. I told him it was not advisable for me to join with him in meeting the press because that would encourage the numbers game already in process based on the President's known humanitarian concern and Subramaniam's estimates of the crop short-fall. He readily agreed.

Actions

Staff work and forward planning to carry out the responsibilities you assigned to me in National Security Memorandum No. 339 is going forward.

6--The President

I have called a meeting of the Committee set up by NSA Memorandum 339 for 9:30 a.m., Monday, December 27, to review action plans preparatory for submittal to the President as directed. I propose to recommend to the Committee that I send or lead personally a team to India the second or third week of January to:

1. inspect the ports and internal transport on the spot verifying the facts and judgments presented to us by the Indians during the current sessions in Washington, D.C. Plans to handle 10 to 11 million tons and also the contingency plan to handle an additional 5 million tons need to be checked out.
2. evaluate the soundness of the current crop estimate and judge what the 1966 crop short-fall actually will be.
3. Review plans and prospects for the 1967 Indian crop so that everything possible is done to prevent comparable demands on the U.S. in 1967.
4. keep the pressure on the Indian Government to get assistance from other countries by forming a consortium or whatever means it takes to get help from other countries. There is a need for strong pressure here. Food grain availabilities in the world are limited by commercial sales to Russia and China made by Canada, Australia, France and Argentina. I believe maximum pressure should be put on them by India to make food grain available even to the extent of diverting shipments already on the high seas. Countries without grain can be pushed to provide inputs such as fertilizer for the 1967 crop. I am not yet convinced that the Indians are willing to move hard and dramatically on this front. We must continue to press them hard at all levels.
5. review on the spot the monitoring scheme now being worked out to measure basic agricultural progress so we can set specific targets and evaluate progress toward such targets quarterly or semi-annually. It needs to be understood at the highest level in the Indian government that failure to meet the targets will in the absence of overwhelming justification result in an AID cut-off.
6. Decide what kind of staff team will be needed in India next year to carry out both the short-run logistical and the long-term agricultural improvement missions.
7. verify or revise current estimates of capacity and actions that need to be taken.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON

December 23, 1965

108

MEMORANDUM

To: The President
The White House

From: Orville L. Freeman
Secretary of Agriculture

Subject: Talks with the Indian Minister of Food and Agriculture

India
Food
orig. sent to President
with Rank memo 12/23

Orville L. Freeman

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3--The President-December 23, 1965

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Actions

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2. evaluate the soundness of the current crop estimate and judge what the 1966 crop short-fall actually will be.
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6--The President-December 23, 1965

6. decide what kind of staff team will be needed in India next year to carry out both the short-run logistical and the long-term agricultural improvement missions.
 7. verify or revise current estimates of capacity and actions that need to be taken.
-

SPECIAL ASSISTANT TO THE SECRETARY OF STATE
WASHINGTON

December 22, 1965

109

India 100

~~CONFIDENTIAL~~ Attachment

Dear Bob:

The meetings with the Indians have been most thoughtful and, I feel, particularly effective. I find my personal notes were relatively detailed and thought you might like to look them over as an indication of the direction of the discussions, and as background before the "official" report gets to you.

Merry Christmas!

Sincerely,

Dick

Richard W. Reuter

Enclosure:

Notes on meetings with
Mr. C. Subramaniam.

Mr. Robert W. Komer,
Deputy Special Assistant
to the President,
The White House.

~~CONFIDENTIAL~~ Attachment

DEC 23 1965

DEPARTMENT OF STATE
SPECIAL ASSISTANT TO THE SECRETARY

109a

December 20, 1965

~~CONFIDENTIAL~~

DECLASSIFIED
E.O. 13292, Sec 3.4
By *gc*, NARA, Date *3-30-04*

MEMORANDUM FOR THE RECORD

SUBJECT: Notes on meeting between Secretary of Agriculture Freeman and Mr. C. Subramaniam, Minister of Food and Agriculture of India (List of participants attached)
(Morning Session)

Mr. Subramaniam reported on short term crisis; using last year's 88 million ton production as base:

8 to 10 million ton shortfall first season (Nov. to Jan. harvest).
2 to 3 million shortfall indicated second season (April to June harvest).
Second crop final result still to be determined by the monsoon.
A small marginal third crop harvested in summer not significant.
Total annual shortfall then of 10 to 13, or perhaps even 15 million tons.

Stocks -- Central stocks of December 1: 1.3 million tons of rice and wheat.
State stocks of Nov. 1: 1 million tons of rice and wheat, plus some stocks in distributors, farmers and consumers.

Acute period will follow February and March use of current stocks but some states with serious drought will feel this sooner because normal shipments from other states will be interrupted. One state already hard hit (Rajasthan program).

Not now famine -- though press has been highlighting a few special cases in "corners seriously affected".

Steps taken so far

Rationing by January 1 in cities of over 1 million and in new urban areas (some 45 to 50 million people).

By April-May all urban areas (over 100,000) will be under rationing -- a total under rationing of 95 to 100 million people. No present plan for rural areas or villages.

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~~CONFIDENTIAL~~

DEC 28 1965

In smaller cities open market but fair price shops will be opened to assure supply.

Ration now is 10 ounces; may have to be cut; perhaps as low as 6 or 7 ounces.

Rural areas where drought shortage will have fair price shops -

Where no grain available at all will start relief -- primarily work relief projects.

Will start program for most vulnerable group, the children, nursing mothers. This will start as emergency measure but hope to keep as permanent Governmental effort. (As Madras Education Minister, Subramaniam started CARE state school lunch program, now reaching 10 million Indians).

Needs now pre-school children's program (Subcommittee to meet on this on Tuesday)

Requirements for children -- Milk powder; vitaminized foods; vitamin tablets.

National central committee established at ministerial level --
With corresponding state level committees being formed. Then will set up district and block level committees --
distribution through schools (where not being done now), including possibly using facilities for pre school.
Other distribution channels under consideration.

Adequate power is now in Food and Agriculture Ministry of National Government to carry this out (This point discussed further due to some U.S. scepticism).

Last year	88 million crops
	<u>6+ million imports</u>
	94 million

This

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This year setting target at 88 million -- will attempt to reduce consumption by about 6 million tons --

So we are talking of filling short fall as import target -- need then perhaps 10 million tons minimum.

(Drop in per capita availability of 6 to 8%)

Probably no more available or able to be gotten in their ports.

We will need then in good months a million tons if to reach even the 10 million annual target.

II. Grain Logistics

Diversion of ships now en route other countries --

Alternative ports -

Road transport for up to 200 miles from port -
Otherwise rail.

Internal logistics - movement within country?

What are capabilities of ports if 4 million or so more needed? Probably will require emergency new arrangements -- even though now setting up port area committee and man with independent powers to maximize port movement.

Transport Ministry claims they can handle without serious disruption some 13 to 14 million tons per year. Rail capacity still has slack.

Ports can handle 10 million tons without serious disruption - but beyond that priorities and emergency action needed.

Other Countries

Mr. Subramaniam personally met with High Commissioners of UK and Australia, and Canada. His secretary seeing others who might help. Indicated food, shipping, fertilizer and other goods India needs. Answers being awaited.

Mr. Subramaniam

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(December 20, 1965 - Afternoon session)

Turning to the long-range problem, Mr. Subramanian outlined 4th Plan priority attention to agriculture. Admitted previous failure to reach targets despite such priority but emphasized present schemes based on analysis of reasons for shortcomings in first three plans --

So plan - 32 million acres selected for intensive cultivation. Emphasis on 9 new grain strains - seed multiplication priority project.

Irrigation needed for new seed in order to get multiple cropping with new shorter growing season seeds.

Soil survey - intensive - as basis for fertilizer use.

Improved soil-water management.

Working now on credit facilities to supplement co-op credit facilities. Talked with private banks to take on pilot blocks for financing more intensive agriculture. Legislation being offered for an agricultural credit corporation.

Food corporation set up (including credit facility so further experimenting on best technique for credit for 32 million acres of intensive land cultivation).

Fertilizer --

(Baby Austin to Rolls Royce -- "You have a better machine, why do you need gasoline?" Actually, of course, you need more.

Intensive agriculture with better seed will need more fertilizer).

Seven-year freedom from price marketing control for all licenses for fertilizer plants issued by March 1967. This should remove a major obstacle on private financing of fertilizer plants. This to apply to present as well as new plants.

Dramatic demand increase for fertilizer -- largely because of price incentive -- has made all this new activity and attitude possible.

Pesticide --

Needs are recognized but in light of fertilizer priority, pesticide needs must be considered marginal (Union Carbide involved in this).

Are now

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Are now attempting slowly to build up an aerial unit for spraying.

Rat pestilence problem recognized -- committee appointed (for 6 months has done little) - so Mr. Subramaniam going ahead developing his own plans --

Storage - by end of year will be 3 million tons -- hired private storage providing approximately 1 million more.

Loss due to poor storage now down to 2/10 of % in Government storage and trying to use this as standard for guaranteed loans on private storage of crops.

Comments on Food Corporation

Originally post procurement distribution from March will go too into procurement from the farmers.

Food corporation on 150,000 acres trying advancing credit for imports up to 50% of crop value and take mortgage on crop - 7-1/2% interest. This forward contracting by Food Corporation will be expanded as experience gained. (Patterned partially on our CCC model). Financing done by banks on basis of contract with Food Corporation guaranteeing to take 50% of crop (which guarantees the impact credit grant).

Agricultural Credit Corporation being developed which will be establishing banks in rural areas.

So, varied experiences being achieved -- central government still ahead of many of state governments in this credit area.

Food Corporation can (and has on occasion) purchased to hold up prices. However, in general prices have been above support price

set

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